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Assessing the Case for a Universal Basic Income in the UK

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Executive Summary

In recent years, universal basic income (UBI) has moved from the fringes of academic debate to being mooted in mainstream forums as a serious policy proposal. This report addresses the idea's remarkable rise, exploring why it has occurred; takes an objective look at the core issues relating to UBI's **desirability**, surveying the existing theoretical and empirical literature on UBI's likely effects; assesses its **feasibility** as a realistic proposal in the UK; and considers various options regarding policy design and implementation strategies. Our approach is to review existing literature and secondary data in combination with our own microsimulation work at the IPR (Martinelli, 2017a; 2017b).

The report is structured as follows. Chapter 1 opens by defining UBI and summarising the theoretical and normative arguments made in favour of the policy. The second section of Chapter 1 provides an introduction to UBI as a family of proposals and identifies some closely related policies to UBI. The third section provides an overview of key contemporary debates, and examines the nature of the evidence on which UBI proponents and critics draw to support their arguments. In doing so we propose that our microsimulation work makes some important contributions to policy debates around basic income, in light of the absence of direct *ex ante* empirical evidence.

In Chapter 2, we examine recent developments which suggest that UBI has risen up the policy agenda, and seek to understand why it has recently gained prominence. The first section of Chapter 2 provides an overview of the recent developments that suggest UBI is experiencing a groundswell of popular support. The following sections examine two core (and related) reasons for the increased policy interest: the increasingly apparent flaws and contradictions inherent in the modern welfare state (second section), and ongoing changes in labour market structures – increasing wage polarity, the growth of precarious and insecure employment, and even the spectre of technological unemployment – to which UBI appears to present a solution (third section). We conclude that support for UBI does not rest on the more extreme theses about the forthcoming 'post-work' future but may still be justified in relation to more prosaic arguments.

While a diverse range of groups are pressing for the change, policymakers remain rightly unconvinced that UBI is the optimal solution – or even an appropriate solution. The remainder of the report deals with the most important debates. Turning to Chapter 3, we note concerns from opponents across the political spectrum that UBI is unaffordable – an issue we survey in the first section of Chapter 3. The challenge is a complex one, going beyond a simple question of the fiscal resources or tax levels required to fund a UBI; it also relates intimately to the distributional consequences of UBI schemes paid at different levels and varying in terms of their interaction with existing welfare policies, issues we introduce in the second section. In other words, affordability and distributional effects cannot be separated; rather than claiming UBI is unaffordable *per se*, a more apt characterisation of opposition is that **an affordable UBI would be inadequate, and an adequate UBI would be unaffordable**. We assess the basis of this claim, looking at microsimulation studies on the fiscal and distributional implications of alternative UBI schemes in the UK. For schemes that aim to replace the myriad means-tested supports ('full schemes'), we show that such schemes either lead to unacceptable household losses (including some disadvantaged groups falling deeper into poverty) or simply cost too much. We compare the implications of such schemes with alternatives which retain the existing array of means-tested benefits ('partial schemes'). We conclude that basic income policy design is subject to a three-way trade-off between the important goals of meeting need, controlling cost, and reducing the negative effects of means-testing; partial schemes are better equipped to ensure acceptable distributional outcomes, but fail to achieve many of UBI's broader goals – including drastic reductions in bureaucratic complexity and the minimisation of poverty and unemployment traps

– as effectively as full schemes.

The reference to poverty and unemployment traps connects to another core issue in basic income policy debates (which also touches on affordability): the extent to which UBI can be expected to result in an expansion or a contraction of labour supply. Clearly, labour market exodus could render the policy unsustainable by eroding a primary source of funding (payroll taxes). But UBI's labour market effects are highly contested – characterised by theoretical ambiguity and a relative dearth of valid empirical evidence. We examine these issues in the first section of Chapter 4. At issue is the relative strength of causal effects which may pull in different directions depending upon individual and household characteristics and the specifics of the UBI scheme in question. In the second section we consider UBI's expected impact on pay and conditions, and its relationship with other labour market policies. Having reviewed a largely theoretical literature thus far, in the third section of Chapter 4 we examine empirical microsimulation evidence on a number of specific UBI schemes, drawing on evidence from Finland and the UK. We argue that partial schemes (in the sense described above) cannot offer the improvements in work incentives that UBI advocates promise to the same degree as full schemes, but that even for the latter, the majority of people would face reduced financial incentives to work.

Finally, Chapter 5 tackles the thorny issues of political feasibility and implementation. In its first section we expound on theories of welfare reform which suggest that any 'real world' UBI scheme would necessarily build on existing policies, institutions and political economy structures. The second section examines the prospects for and barriers to the coalescence of UBI's potential beneficiaries into meaningful constituencies and coalitions of support. In this context, the feasibility of different UBI proposals needs to be considered with reference to prevailing policy trajectories and electoral trends in the UK, as we do in the third section. While we cast doubt on the likelihood of a robust coalition of interests forming around any UBI paid at a substantial level in the UK at the present time, we note a number of possible implementation trajectories which appear relatively feasible under existing conditions.

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Introduction to Basic Income Policy Debates

What is UBI and What is it For?

Following the standard and commonly-accepted definition (Van Parijs, 1992), a universal basic income (UBI, used interchangeably with the terms basic income, citizen's income and unconditional basic income) is a regular cash payment, paid periodically

- To everyone within a defined political cmmunity
- On an individual basis
- Irrespective of the recipient's income or wealth (i.e. without means-testing)
- Without behavioural (labour market) conditions attached
- Without reference to any prior contributions or work history

The idea of a basic income has been around for a long time. It is, as Van Parijs (ibid.) remarks, a "disarmingly simple idea" with the potential to profoundly change how we organise social security and the very nature of work. Thomas Paine (1737-1809) mooted the payment of a universal endowment in the 18th century, long before the modern concept of social security even existed, as compensation for the appropriation of the 'commons' for private gain. In the mid-20th century, economists such as James Tobin and Milton Friedman endorsed the concept as an exercise in welfare reform for reasons of economic efficiency. The core idea is to eliminate the need for intrusive and costly bureaucracy and replace (or at least supplement) a complex range of targeted and conditional benefits with a single, uniform transfer.

Reforming social security in such a way is argued to give rise to numerous and significant advantages over conventional (means-tested, contributory and conditional) social security systems. Firstly, unlike in means-tested schemes, claimants are not discouraged from working by the withdrawal of benefits or the risk of income disruption; so-called poverty, unemployment and bureaucratic traps are eliminated or reduced. Secondly, there are no gaps in coverage – i.e. UBI provides income security to all as a matter of **right**, absent intrusive and burdensome entitlement conditions. While basic income security is viewed by a majority of the population as a normative right (ILO, 2004), as Standing (2005) notes, "you do not have a right if you have to do x, y and z in order to have an entitlement". Thirdly, basic income allows individuals to balance work and family commitments more freely – as well as to engage in a range of socially valuable and personally fulfilling activities – and facilitates their engagement in more flexible forms of employment. Fourthly, being individualised, UBI is minimally intrusive into individuals' personal relationships, dispensing "with any control over living arrangements", preserving "the full advantages of reducing the cost of one's living by sharing one's accommodation with others" (Van Parijs, 2004: 12).

Advocates have also sought to justify basic income in connection with a range of political philosophical perspectives and theories of justice; an overview of libertarian, egalitarian and communitarian positions on basic income is provided in Appendix 1. Proponents thus suggest basic income is both a **just** and an **economically efficient** means of achieving the core objectives of social security: redistributing income, alleviating poverty, and managing risk. Goals range from prosaic improvements in the organisation of welfare – e.g. labour market activation, reduced administration costs, stigma and bureaucratic intrusion, and the promotion of the flexible 'gig economy' – to more profound forms of societal change – the promotion of gender equality via a fairer division of unpaid caring duties and the provision of independent incomes to women, the strengthening of workers' bargaining positions *vis-à-vis* employers via provision of an 'exit option', and the ecological benefits of 'degrowth' – that characterise a 'post-productivist' economy.

UBI's strengths give rise to arguments that it is well placed to cope with new and emerging social risks, while ensuring labour markets function effectively in the light of new economic and technological realities. The most attention-grabbing of the numerous justifications for UBI relate to structural changes to the economy. In one argument, typified by Srnicek and Williams (2015), the capacity for robots to replace a growing proportion of human labour has alarming implications that can only be mitigated by UBI. As Goos and Manning (2007) have demonstrated, technological development is associated with a polarisation between 'lovely' and 'lousy' jobs – so, even if predictions of the redundancy of human labour are unfounded, it appears reasonable to assume that automation will continue to contribute to growing disparities in earning potential. A simultaneous labour market trend has been towards greater income insecurity through a gradual reduction in the proportion of permanent, full-time jobs (Standing, 2011). These dynamics look likely to lead to dislocation and economic insecurity for millions of people. UBI becomes a way to re-imagine society in a chronically insecure and/or 'post-work' future.

A Family of Schemes: Varieties and Cognates of UBI

Although UBI has a number of core definitional attributes (as described above), basic income is best seen as a family of schemes, with variation between them in terms of a number of crucial design features; De Wispelaere and Stirton (2004) review a number of sources of variation between different forms of UBI. The most crucial of these are arguably the level of payment, the way UBI is intended to interact with other benefits (i.e. whether it is intended to replace or run concurrently with them) and

the wider constellation of labour market policies, and how it is funded. It is also worth noting that although coverage must by definition be 'universal', this is usually understood in the context of a defined population. Therefore, payments are usually restricted on the basis of citizenship or residency criteria, excluding foreign nationals, recently arrived migrants, and convicted prisoners (Van Parijs, 2004). Perhaps more pertinently, age criteria may be applied to delimit entitlement or vary the level of payments; some proposals only cover working age adults for example (Murray, 2006), or relate to an even more specific age groups such as 'Third Age' adults (Torry, 2013).

These design features vary in line with the goals and objectives motivating basic income; in turn, different goals and objectives are prioritised according to the political preferences of different UBI supporters. UBI supporters come from a wide range of political perspectives, a consequence of the breadth of the range of arguments on which UBI proponents draw. At UBI's heart is a compromise between the 'protective' and 'productive' elements of social security (Hudson and Kühner, 2009) – protecting against new and old social risks (Haüsermann, 2012) while eliminating harmful labour market distortions (Van Parijs et al., 2000). The juxtaposition is such that basic income is argued to defy conventional political labels; it is 'neither right nor left but forward'. A more nuanced assessment may be that whether it is 'right' or 'left' depends on the specifics of the scheme in question; an important theme of our analysis is that it may be impossible to achieve all of UBI's stated objectives in a single scheme – as discussed below, and the political strategic consequences of which we return to in 5.

Progressive and Conservative Visions of UBI

The 'basic' in UBI does not imply any minimum level of payment or "a link with so-called basic needs... a basic income can in principle fall short of as well as exceed whatever level of income is deemed sufficient to cover a person's basic needs" (Van Parijs, 1992: 4). In any case, the level of income required to ensure an individual's basic needs are covered is highly debateable. Following the Basic Income Earth Network's definitions (BIEN, 2017), it is helpful to distinguish between 'full' and 'partial' UBI schemes, with the former "high enough to be... part of a policy strategy to eliminate material poverty and enable the social and cultural participation of every individual" and the latter implying a more modest payment (see Standing, 2004: 19). The precise payment levels are not specified; as BIEN notes, "definitions of 'full' and 'partial' are highly controversial" (BIEN, 2017).

These definitions (of full and partial UBI) also connect to another important form of variation between schemes: how UBI is conceived to interact with the wider constellation of social security benefits. Clearly, *ceteris paribus*, the higher the level of payment, the stronger the rationale that it would replace, rather

than supplement, other benefits. Indeed, some definitions of full and partial UBI are explicit that the former is designed to replace a large number of existing benefits while a partial is designed to replace relatively few (Kela, 2016). Again, the exact parameters are not specified; full and partial are relative concepts. Nevertheless, it is this understanding of full and partial UBI that we adopt in this brief when evaluating specific schemes in Parts 3 and 4.

Another important area of contention is how UBI should relate to wider labour market policies. Some advocates of basic income see the policy as consistent with strong labour market protections such as minimum wage legislation and working time directives. Indeed, due to concerns that UBI could act as a subsidy to low wages and weaken the bargaining position of some workers, such wider labour protections are seen as even more vital (Gray, 2017). Furthermore, actualising the more optimal work/life balance that basic income potentiates requires that employers permit workers to reduce their hours – necessitating flex-work regulations. Against these arguments, some proponents argue that basic income eliminates (or reduces) the need for employment protection and labour market regulation, as individuals have a stronger bargaining position and therefore greater capacity to refuse unacceptable pay and conditions in the first place (Groot, 2002).

Together, these issues are highly contested. A number of advocates seek to demonstrate not only that a basic income is just, but that it should be paid at "the highest sustainable level" (Standing, 2004). Such a vision is motivated by a strong appetite for redistribution and belief that workers should be provided an exit option to strengthen their hand against employers[1]. Usually, advocates of generous UBI schemes – coming as they do from the political left – acknowledge that payments may need to be supplemented with extensive additional transfers, and are more sanguine about tax rises that might be required to pay for a generous UBI. They are also motivated by the desire to reduce harmful and intrusive conditions that are only imposed on the poorest in society, and to plug the gaps in the safety net to provide 'substantive' rather than purely 'nominal' universality. Progressive basic income advocates are likely to support strong employment protections and oppose UBI being used as a subsidy to poverty wages.

1. For example, in their article "A Capitalist Road to Communism", Van Der Veen and Van Parijs (2006) argue that a generous unconditional payment would strengthen the position of the poorly paid, helping to improve conditions of work and pay but also serving to motivate labour market withdrawal and engagement in intrinsically fulfilling activities. Payments could be increased provided that total output remained sufficient to cover them. As the authors acknowledge, it would not be immediately possible to share the entire social product in this way, since "this would, in all likelihood, generate such a drastic fall in the supply of both capital and labor... that *per capita* income... would no longer cover fundamental needs" (ibid.: 12). However, as a result of continual productivity gains, "the maximum relative share of the guaranteed income increases steadily ... [until such a point that] ... all fundamental needs could sustainably be met without labour being differentially rewarded" (ibid.).

At the opposite end of the spectrum, libertarian and conservative basic income advocates tend to prioritise arguments about reductions in administrative costs, removal of unemployment and poverty traps, the elimination of bureaucratic intrusion, and the curtailment of welfare expenditure. Controlling tax rises is likely to be an important motivating factor in policy design. Typical of this perspective would be Murray's (2006) proposal which replaces most social security policies – including those relating to housing and health – with a single, modest payment for all working age adults. Because they are arguably relatively less concerned with reducing the burden of administration on claimants than they are concerned about reducing administrative costs to the state, conservative and libertarian advocates tend to favour one of UBI's cognates, the negative income tax (described below), as opposed to UBI *per se;* they also tend to be more sanguine about means-testing at the household level. Conservative supporters also tend to champion basic income being coupled with *laissez-faire* labour market regulations.

Cognates of UBI

Between the two polarised positions described above, there are an almost infinite number of ways to conceive of a UBI's role in the welfare state.

As well as variation between forms of basic income *per se*, we can also identify policies which fall short of conforming to the definition of basic income provided above, but which share pertinent features with basic income – such that their goals, likely effects and political dynamics are highly congruent with UBI. The most important of these 'cognates' of basic income are relevant to the extent that they provide insights that can be generalised to UBI 'proper', especially in light of the dearth of empirical evidence about the latter. Perhaps more significantly, they represent policy options that might be seen as more immediately feasible steps towards the implementation of an actual UBI.

Negative income taxes (NITs) share with UBI the goal of providing an unconditional minimum income floor, and have potentially equivalent economic effects. The important distinction is that an NIT "can determine the level of transfer to which a person or household is entitled (if any) only in the light of information about income from other sources. In this sense, the fundamental difference between a basic income and an NIT is that the former operates *ex ante*, whereas the latter operates *ex post*" Van Parijs (1992: 4). Thus, NIT retains a means-testing function. This means that the policy can be provided at much lower gross fiscal cost compared to the UBI since the rich do not receive the payment in the former case, although in reality "the difference in these two scenarios is only nominal and... the real flows of money" are identical (Honkanen, 2014). Nevertheless, the framing of an unconditional floor as a means-tested tax credit may be more politically palatable than an upfront payment to

rich and poor alike, but NITs would also impose greater burdens on claimants and reduce 'target efficiency' relative to *ex ante* UBI schemes. As Van Parijs (1992: 5) observes, "in the real world it does make a tremendous difference whether the minimum income guarantee is given to all *ex ante*, no questions asked – as it is under a basic income scheme – or whether it is given only to those who turn out to have had, or provide adequate evidence that they now have, an insufficient income".

Although not a matter of definition, another difference is that in practice NIT schemes are usually based on minimum income calculated at the household level (i.e. dependent on household composition) and therefore do not conform to the criterion that UBI should be an **individualised** payment. Because this should reduce the payment levels required to achieve a given standard of living – by exploiting the economies of scale that arise from sharing living costs – minimum income schemes often depart from UBI in this respect. The downside is that household-level schemes require another layer of bureaucratic intrusion that can distort coupling and family decisions in damaging ways (as discussed in Chapter 2).

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Earned income tax credit (EITC) schemes are another relation to UBI schemes. They differ from NITs in that they are only paid to those in work, as well as being means-tested. As an in-work benefit or employment subsidy, they are intended to simultaneously reduce unemployment traps that arise from the steep withdrawal rates in means-tested out-of-work benefits, as well as alleviating poverty for individuals with inadequate wages (De Beer, 2000; Van Parijs et al., 2000). EITC schemes can be individualised or calculated at the household level (Van Parijs, 2004). Like NITs, they imply lower gross fiscal costs compared to an equivalent UBI, but may to a greater degree contribute to suppressed wages, thus undermining their effectiveness as a poverty alleviation tool (see Chapter 4).

Another close relation of basic income is the participation income, which relaxes the 'no behavioural conditions' criterion (Atkinson, 1996). However, the conditions are much less restrictive than those implied by standard labour market activation policies, and incorporate approved socially-valuable activities such as education, volunteering and care. Atkinson's proposal is motivated by opposition to free-riding, which threatens the ethical desirability and the political feasibility of unconditional policies. However, it is open to the charge that it would be administratively cumbersome and excessively intrusive (De Wispelaere and Stirton, 2007).

Unconditional cash transfers – which are becoming more prevalent across the developing world – may also be seen as sharing important features with UBI. Such schemes may fall short of universal coverage, but are unconditional in behavioural terms and may not be explicitly means-tested – instead being targeted at demographic groups at high risk of poverty (Standing, 2008).

A final policy option worth mentioning here relates to ongoing

moves towards **benefit standardisation** and **risk re-categorisation** (Clasen and Clegg, 2012). The former refers to reducing the role of prior contribution histories in the determination of benefit entitlements: the erosion of the insurance principle and the dualisation of labour market protections that arise. The latter refers to erosion of differences between the ways specific types of claimants are treated, in terms of payment generosity and the imposition of conditions. In both cases, parallels can be made with the design features and goals of UBI as a uniform, non-contributory payment made to all existing claimants (and non-claimants) alike.

Assessing the Case for a UBI in the UK

Controversies and Debates

In recent years, UBI has shot rapidly up the policy agenda, with growing levels of public awareness and support. In light of these developments, a number of arguments suggest that UBI's rise is all but inevitable, due to tensions and contradictions at the heart of the modern welfare state, and profound transformations shaking up the labour market. The nature and significance of these developments are the first issues addressed in this report; in Chapter 2, we assess whether UBI is indeed **an idea whose time has come** and whether events are pushing inexorably towards UBI as an essential part of any solution to insecurity, inequality and unemployment with which existing systems of social security are simply ill-equipped to cope.

Notwithstanding the theoretical advantages of basic income, there are a number of serious objections and counter-arguments in terms of UBI's desirability and feasibility. **Desirability** refers to the extent to which universal basic income has what Van Parijs (1990) terms 'ethical value' and 'economic value' – relating to the qualities of justice and efficiency respectively. Feasibility encompasses both whether basic income is **achievable** in the sense that it could gain sufficient traction in the political sphere and fit into existing institutional structures, and whether it is **viable** in the sense that, once implemented, the policy would cohere with its stated objectives (De Wispelaere and Noguera, 2012). In the present brief, we use the term feasibility largely in the former sense of prospective achievability. Of course, desirability and feasibility are intricately linked. If basic income is undesirable – for example, appearing ethically unjust to many people – then it is unlikely to be politically achievable. Nevertheless, we retain the analytical distinction between desirability and feasibility because it is possible that a given policy may be highly desirable but not feasible; even among proponents we encounter scepticism about the political prospects for the implementation of basic income.

Indeed, universal basic income attracts enthusiastic support, but also fervent opposition. In some ways this is unsurprising; the profound theoretical arguments in favour of UBI are achieved by way of a radical departure from established norms of reciprocity and notions of citizenship rights that is sure to disquiet a great many people. Indeed, some of the hostility towards UBI is based on normative opposition to its unconditional nature, and associated issues of justice and fairness. In other words, the objection is that UBI breaks entirely the foundational bonds between social security protection, labour market effort and desert, allowing the hypothetical 'lazybones' to free-ride on the contributions of others. The other main objection is that a uniform benefit is at best an inefficient way to alleviate poverty, and at worst one that will leave many of the most disadvantaged poorer than before. In both cases it is seen as morally wrong to give payments to rich and poor alike. Thus UBI is criticised for severing the link between social protection and need as well.

Both of these two fundamental objections are prevalent from the right to the left of the political spectrum. Left-wing critics of basic income believe that welfare should be generously available for all, and those on the right that it should be a residual safety net – but both agree that the right to an income comes with a responsibility to work. And critics of both persuasions agree that payments should be proportional to need – whether conceptualised in relative or absolute terms – not uniform. To the extent that we are interested in the political feasibility of basic income, the subject of Chapter 5 of this report, we are interested too in arguments about its normative appeal or otherwise.

In any case, these normative issues are closely associated with concerns about UBI's economic impacts which may, in principle, be settled with reference to empirical evidence. Two overarching concerns in this regard are that basic income would either be unaffordable (at any level worthy of implementation) or would give rise to unacceptable rises in poverty, and that it would lead to widespread contractions in labour supply. These concerns are addressed in Chapters 3 and 4 respectively.

The Nature of the Evidence

One of the most interesting and challenging aspects of the debate over the advantages and disadvantages of UBI is that there is very little direct empirical evidence of UBI on which we can draw. Furthermore, the evidence that is available is limited in terms of lessons that can be applied to assessing the case for a UBI in the UK, either because the policy in question is too far removed from what we consider to be a real basic income, or because the context in which it has been implemented or trialled is too dissimilar to that of the UK.

The only policies that conform to the definition of UBI, and that have entered into legislation and been implemented, are the Alaska Permanent Fund Dividend (Widerquist and Howard,

2012a; 2012b) and Iran's price subsidy reform (Tabatabai, 2012). But due to their distinctive financing arrangements and their low and fluctuating value of payments, and their idiosyncratic goals (De Wispelaere, 2016a; Zelleke, 2012), these policies diverge from how UBI is usually conceptualised; evidence of their effects is unlikely to be transferrable to the contexts in which we are interested here.

While the picture that emerges from the experience of these 'fully-implemented' but highly partial UBI schemes is of relatively limited value to mainstream debates, there are a number of sources of experimental evidence to which basic income scholars can point to support (or refute) their contentions about the policy's effects, with more experiments ongoing or in the planning stages.

Historic North American Experiments

Probably the most important source of evidence on basic income's likely effects are a number of negative income tax experiments carried out in the US and Canada between 1968 and 1980. Within a number of communities across the US and in Manitoba, Canada, households were randomly selected to receive a guaranteed minimum income. The policies under examination differed from UBI 'proper' (as defined above) in that payments were calculated at the household level (i.e. they were not individualised) and payment was made after assessment of income shortfall, not upfront (i.e. they were a negative income tax). In this sense, payments were restricted to 'poor' households. But in common with UBI, recipients were not subject to behavioural or work history requirements. Aside from the difference in mechanism, it has been demonstrated that negative income taxes should have equivalent distributional effects to a basic income when paid at a certain level and combined with an appropriate tax rate.

Through comparison with control group outcomes, the aim of the experiments was mainly to examine labour market effects, but indicators relating to health, education and social cohesion were also analysed (Hum and Simpson, 1993; Widerquist, 2005). The findings of the hundreds of papers that the experiments spawned can hardly be touched upon here, but overall there was a small but significant drop in labour market activity, especially for women. In addition to this, based on until-recently-forgotten archives of data from the Manitoba experiments, Forget (2011) found evidence of a number of positive effects relating to indicators of welfare and well-being, including significant drops in hospital admissions and mental health complaints. We discuss the relevance of these insights below and return to them in Chapter 4, in our discussion of UBI's effects on labour market participation.

Recent and Ongoing Experiments in Developing Countries

There have also been a number of recent experiments in developing countries (Namibia and India), with two more ongoing (Kenya and Uganda). Again, it seems likely that the evidence generated by these experiments would be at best only partly applicable to the UK context. Nevertheless, it is important to recognise that the studies have been lauded as having a number of successful outcomes.

In Namibia, in 2008 and 2009 an experiment was carried out by the Basic Income Guarantee Coalition, an NGO. One village was selected and all residents under 60 – around 1,000 people – were paid approximately US$15 per month for two years, conforming to the UBI criteria defined above. Researchers noted a number of positive outcomes – reductions in poverty levels plus positive effects for health, education, crime, entrepreneurial activity, and gender equality (Haarmann et al., 2009).

Several years later, in 2011 and 2012, another genuine basic income experiment was carried out, this time in India. This was a larger study and had a much more robust experimental design, with data collected through a variety of surveys carried out by the Indian Self-Employed Women's Association (SEWA) and UNICEF. Eight villages were selected at random for treatment, and outcomes compared with 12 control villages. In total, around 5,000 people were paid a basic income for 18 months. As in Namibia, researchers found a range of positive outcomes in relation to socioeconomic indicators such as household debt levels, health, and gender equality (Davala et al., 2015).

In Kenya, an even larger and long-term experiment is being carried out by another NGO, Give Directly. The researchers are examining the effects of unconditional payments on 40 villages and over 26,000 individuals, over both long- (12 year) and short-term (2 year) impact periods. The experiment started in October 2016. In Uganda an experiment has just been launched by the Belgian NGO Eight; 50 households in one village are to receive €8 per week (for household comprising one adult and two children) (McFarland, 2017).

Ongoing and Upcoming Experiments in High-Income Countries

Perhaps the most promising form of empirical evidence is the flurry of experiments being carried out or entering advanced planning stages in a number of mature welfare states. Most prominent (and advanced in their implementation) among these are those in Finland, the Netherlands and Canada, with some very tentative moves towards planning a pilot also occurring in Scotland (ibid.).

In January 2017, the Finnish government launched a much-anticipated experiment into the effects of UBI. Initiated by the incoming prime minister in 2015, the experiment was motivated

by an avowed desire to explore options for making social security more attuned to contemporary patterns of work and less bureaucratic, as well as to reduce poverty and unemployment traps (Kangas et al., 2017). A consortium of research institutions, coordinated by the Finnish social security organisation Kela, were charged with planning and running the experiment, the objective of which is to "estimate the causal effect of a basic income scheme on outcomes" (Kela, 2016: 11).

While the Finnish experiment has been implemented 'top-down' from the Prime Minister's Office, the Dutch experiments have been driven by devolved city-level administrations, partly as a result of their opposition to the central government's approach to welfare and conditionality. This reflects a more general trend of interest in UBI and cognates within devolved regional and municipal authorities. In 2015, the government implemented legislation to make job search conditionality more stringent. Around 30 Dutch municipalities – with Utrecht, Tilburg, Wageningen and Groningen the most advanced in their efforts – are exploiting a 'loophole' in the new legislation (article 83 on innovation) "which allows room for experimentation" (Groot and Verlaat, 2016: 3). There were a diverse range of proposed schemes, but among them were basic income-type schemes in which conditions are removed entirely, and in which the high withdrawal rates of existing means-tested benefits are reduced.

While the details of the Dutch experiments are (at the time of writing) still tentative, the Canadian province of Ontario has recently announced more definite plans to trial UBI (Bennett, 2017). While the experiment will not test the effects of a truly universal UBI – it is intended to target poor households only – there is no limit to the amount of additional income recipients can earn, unlike in the Netherlands. Additional earnings will be subject to a marginal tax rate of 50%, much lower than the marginal withdrawal rates associated with most means-tested benefit. However, the experiment departs from UBI because it is not individualised; single people will receive up to C$17,000 and couples C$24,000. The process has been informed by a consultation document written by a longstanding conservative basic income scholar (Segal, 2016). Although the precise details of the experimental design are still pending, the experiment has a budget of C$50million and will cover 4,000 households for a period of three years.

National and regional authorities are not the only actors interested in conducting experiments in high-income countries. The head of the technology start-up firm Y-Combinator, Sam Altman, has founded a research group to design and implement a basic income experiment in California (McFarland, 2017).

The Value of and Limits to Experimental Evidence

Policy experiments are important for several reasons: they give us important information about the effects of implementing

basic income on which theoretical evidence is highly ambiguous (for example, on disputed labour market behavioural effects and on various indicators of social welfare). Trials are also invaluable in uncovering implementation issues not predicted by theory, and thus in fine-tuning the detail of policies before full implementation. Perhaps of equal importance, they also have 'political demonstration effects', raising public awareness and overcoming objections by demonstrating impacts (De Wispelaere, 2016b).

Nevertheless, the aforementioned experiments are only of limited value in assessing the case for UBI in the UK (and indeed elsewhere) for several reasons. Firstly there are a host of methodological problems that mean that, to varying extents, these experiments fall short of the evidential requirements of the 'gold standard' of randomised control trials (for example see Osterkamp, 2013, on the Namibian experiment). More generally, the durations of the experiments have tended to be insufficient to observe long-term effects, and it is likely that individuals act differently in relation to experiments compared to fully-implemented policies. Even putting these issues aside for the moment, the external validity of the insights of these experiments is limited by the fact that either or both of the **policy under examination** and the **background context in which it is being implemented** are too dissimilar to draw any really useful conclusions about how concrete proposals for basic income would work in the UK context. Perhaps most obviously, experiments taking place in developing countries proceed in an entirely different institutional context, as well as implying very low-level benefits (even as a percentage of average local income). The historic US and Canadian experiments – probably still the most reliable source of data on basic income's likely behavioural effects – are negative income tax schemes paid at the household level. They are also now several decades old, and took place in labour market conditions that differ significantly from those prevailing in the UK and at the present day.

"There are a host of methodological problems that mean that, to varying extents, these experiments fall short of the evidential requirements of the 'gold standard' of randomised control trials"

Ongoing and upcoming experiments are likely to be limited in other ways. In Finland, it became apparent that it would not be possible to experiment with tax changes that would form the basis of 'revenue-neutral' costed schemes. In essence, the Finnish Tax Administration did not have the capacity to set up a range of systems in time for the purpose of the experiments (Kela, 2016: 52). Therefore, the simultaneous effects of tax changes that might occur concurrently with the implementation of UBI are not evaluated. Furthermore, the sample is not truly universal, being restricted to unemployed recipients of means-tested social assistance; a UBI of approximately €560 per month is being paid to 2,000 participants in place of the existing payments (Kangas et al., 2017).

In the Netherlands, experiments are unlikely to live up to their early promise. The experiments are restricted in the same way as in the Finnish case – being limited to existing welfare recipients, and thus falling short of universality. But in addition, the central

government has intervened to restrict the scientific scope of the experiments, insisting upon some troubling design features for political reasons (Barnhoorn, 2016). The most important of these is that, whereas the original proposal was that participants could maintain all of their additional earnings (subject to income tax), the central government decided that they were restricted to retain 50% of additional earnings up to a maximum of €199 (ensuring their total combined income remains less than someone would earn working full-time at minimum wage), thus contradicting one of UBI's core principles.

Finally, even if we are able to observe – reliably – the impacts of a policy, find that the effects are positive, and generalise the findings to another context, experiments such as these do not offer any way of weighing up beneficial impacts (relating to improved income security) against UBI's fiscal costs (and against the costs and benefits of alternative policies). It is hardly surprising that giving people money would have a number of positive impacts; the question is whether UBI is a good use of funds.

Although to varying degrees they might still generate important data on the effects of the removal of conditions and high withdrawal rates on employment transitions, these types of experiment are unable to tell us much about the more holistic effects of 'UBI-proper' in the UK, since they do not test for the crucial effects of accompanying tax changes, nor examine how changes in income and behavioural responses would be distributed across different demographic groups in the case of a truly universal payment.

The Microsimulation Approach

Fortunately, these are questions to which microsimulation methods can readily be applied. Microsimulation is a common approach to evaluating the effects of tax and benefit reforms with respect to fiscal implications, distributional effects, and (less commonly) impacts on static work incentives. Recently, the basic income debate has moved to address issues relating to policy design and the relative merits of different types of UBI scheme, to which microsimulation approaches are particularly well-suited. Advances in computing power combined with the availability of large, representative income surveys make it possible to compare outcomes of the prevailing 'base' policy environment with other hypothetical policy systems. This means that we have much greater capacity to assess and compare large numbers of different permutations of UBI.

Because it models the effects of policy reforms over a representative sample, microsimulation enables researchers to draw an accurate picture of overall impacts on government revenue, the income distribution and the distribution of financial incentives to work at the national level. In Chapter 3 of this report, we summarise and review the IPR's own studies (Martinelli, 2017a and 2017b) and those carried out by other scholars (Torry, 2016a;

Reed and Lansley, 2016). In combination, these studies offers important insights into the trade-offs between the objectives and probable impacts of alternative (full and partial) schemes. We must note that a major shortcoming of this type of analysis is that it assumes no behavioural change (e.g. labour market response). This seems unrealistic in the context of such a wide-ranging reform as the implementation of a universal basic income, especially one paid at a generous level. For these reasons, micro-simulation evidence should be complemented with theoretical modelling, *ex-post* analysis of observed behavioural responses, and microsimulation of static work incentives. In Chapter 4, we summarise the secondary literature on UBI's likely effects on labour market participation, and review the results of our own (Martinelli, 2017b) and others' (Kangas et al., 2017) microsimulation studies into UBI's effects on financial work incentives in the UK and Finnish contexts respectively.

2

An Idea Whose Time Has Come?

Evidence of Increased Interest and Support in the UK and Beyond

In the past few decades, waves of interest in the idea of UBI have waxed and subsequently waned. But there is a sense in which the recent resurgence of interest is more intense, and support more ardent, broad-based, and secure. What is the basis for such a claim?

Increased media and public scrutiny is one element. In 2013, there was a successful Swiss 'popular initiative' to hold a referendum on whether to grant every citizen an unconditional monthly payment. In the wake of the news, press coverage of the basic income idea increased exponentially, with (broadly) favourable coverage in such publications as *The Guardian* and *The Independent* in the UK, and *The New York Times* and *The Wall Street Journal* in the US. While the Swiss motion was defeated comfortably when the referendum took place in June 2016, it contributed hugely to increased media attention and public awareness.

Another important set of events that both reflect and motivate greater public and media interest in basic income are decisions to carry out (or at least, seriously examine the practicalities of carrying out) UBI experiments in a number of high-income countries, as discussed in Chapter 1. Of course, whether all of the proposed trials will take place is unclear; what is important is that they indicate that the debate has reached 'mainstream' policy circles – where there is now, at the very least, growing appetite for further investigation.

Increased Support from a Broad Range of Sources

Another element is the growing membership – and sheer number – of organisations supportive of (or at least interested in) the idea of UBI. These new sources of support and increased interest stem largely from perceptions that existing systems of social security are not fit for purpose, in the light of ongoing socio-economic transformations including labour market change. The interest includes a diversity of political and civil society collectives and has come from across the political spectrum. UBI's most staunch and consistent supporters have traditionally been found within Green and minor left-leaning political parties (Groot and Van Der Veen, 2000). Indeed, the UK's Green Party has consistently incorporated basic income into its election manifestos, and has done so again in 2017 (Green Party, 2017). Other minor parties firmly in favour of basic income include the Icelandic Pirate Party and the single issue Bündnis Grundeinkommen ("Basic Income League") in Germany.

Traditional social democratic parties, with their 'labourist' ideals and backgrounds entrenched in organised labour movements, have typically eschewed UBI, while conservative parties

"The World Bank and other mainstream development institutions now promote cash transfers as a core element of the social protection agenda, and have begun to explore the strengths of unconditional schemes"

have been even more reticent. An interesting development in this regard is that in Finland, UBI has been pushed onto the policy agenda by the centre-right coalition government (Kalliomaa-Puha et al., 2016). The Socialist candidate for the French Presidency, Benoit Hamon, was a vocal supporter of basic income. In the UK, the idea has recently attracted support from the Trades Union Congress (TUC), and the progressive Royal Society for the Arts (RSA) and Compass think-tanks, with the latter contributing important work into the financial and distributional feasibility of a number of basic income schemes (Reed and Lansley, 2016). The free market think-tank The Adam Smith Institute also supports a negative income tax form of basic income. The Work and Pensions Select Committee – as well as the Scottish Parliament's Social Security Committee and a Labour Party working group – have recently convened expert meetings to examine the case for UBI. This would have been unthinkable a few short years ago, and is suggestive of UBI's broad-based appeal.

Alongside these developments, there has recently been an explosion of interest within the technology sector (Sadowski, 2016). This interest appears to have arisen in response to features of UBI relating to its suitability for new patterns of work driven by, and involved in the generation of, technological developments. In the case of the former, online platforms such as Uber underpin the so-called 'gig economy'. The operators of such platforms – and their workforces – would benefit from a basic unconditional income floor; it would enable employees to accept more flexible but insecure working patterns. Those involved in the production of digital technologies (the archetypal Silicon Valley programmer) also see the value in UBI. The technology industry is driving the digitisation and automation of routine human activities, with the potential (in principle) to shed large numbers of jobs. As discussed further below, this is one of the core reasons that interest in basic income has been growing; UBI is seen as an essential aspect of the maintenance of public acceptance for such changes.

A final development worthy of note is appetite for UBI and related policies within the social protection and international development communities. The World Bank and other mainstream development institutions now promote cash transfers as a core element of the social protection agenda, and have begun to explore the strengths of unconditional schemes (Baird et al., 2010; Golan et al., 2015; Haushofer and Shapiro, 2016). In India, motivated by the sheer number and complexity of poverty alleviation schemes and programmes (over 950 financed by central government alone) and their huge cost (approximately 5% of GDP), the government is investigating the practical feasibilities of UBI and cognate policies (Government of India, 2017).

To the extent that these varied developments suggest that a shift in UBI's fortunes is underway, why has this occurred? We need to distinguish proximate causes (such as interest in the Swiss referendum and forthcoming policy experiments) from

more fundamental, structural forces. Clearly, announcements of pilots and referenda in recent years have contributed to the flurry of media and public interest – and vice versa, the two factors reinforcing one another. But this doesn't explain why they have happened in the first place – and why **now**.

Arguably, in seeking structural causes of basic income's rise, we can identify a number of related phenomena. One set of important factors relates to the emergence of a number of challenges to both the efficacy and the public acceptance of traditional modes of social security. Another set relates to a number of labour market changes – including automation – which are contributing to polarisation of wages and driving concerns about technological unemployment. Under the category of labour market change we must also consider arguments that suggest that work is growing increasingly insecure in character.

A second question relates to the significance of all these developments, and of their fundamental structural drivers. Does increased interest and attention really signify a shift from 'pipe-dream' to 'serious political proposal'? Certainly, we are seeing the investment of real political capital in a number of important respects. But are moves towards basic income all but inevitable, as some proponents claim, given the likely continuance of existing trends? On this, we must be more circumspect; as discussed below, there are still a number of significant political barriers for UBI to overcome and a number of alternative scenarios that may yet emerge in opposition to basic income's apparently inexorable rise.

Welfare States in Crisis

The 'welfare state' is usually seen as having arisen from a particular set of economic, social and political developments that are broadly common to high-income developed countries in Europe and North America; these include industrialisation, political modernisation, and demographic and labour market changes (Pierson, C., 1998: 12-13). After the Second World War until roughly the mid-1970s – the so-called *Golden Age* – European welfare states experienced the institutionalisation of increasingly comprehensive and generous forms of welfare provision. This expansion took place under socio-economic circumstances in which sustained economic growth, full (male) employment (enabled by Keynesian demand management), and stable nuclear families were the norm. In other words, conditions were such that families' welfare needs were reasonably well-met through wage income – which was expected to be sufficient to cover a breadwinner's dependents – with contributory benefits covering the periods in which he was unable to work as a result of involuntary (frictional) unemployment, incapacity or old age. As a result of labour market and demographic factors, these contingencies

were relatively rare and/or short in duration – on average, at least – compared to the offsetting contributions histories. As Van Parijs et al. (2000: 53) observe, "the resulting pattern of distribution seemed to be on the right track so long as access to a job and the entitlements associated with it… were secured to the overwhelming majority of households".

This is no longer the case. Since the 1980s, there have been reports that the welfare state is 'in crisis', for the first time becoming "the object of doubts, fundamental critique, and political conflict" (Offe, 1984: 147-8). Offe's analysis distinguishes critiques emanating from the right and left of the political spectrum. In the case of the former, welfare is the cause of dependency and societal breakdown, reducing incentives to work and save, and discouraging family formation. The welfare bureaucracy required to administer social security is further argued to be bloated and intrusive. This type of argument has been extremely influential in shifting public opinion and driving policy reform in the UK (Dean and Taylor-Gooby, 2014).

In the case of the critique from the left, the system is seen as incapable to satisfy unmet needs in the context of the emergence of 'new social risks' (Bonoli, 2005). These new risks, for which traditional systems of social security appear increasing ill-equipped, include lone parenthood, reconciling work and family life in the context of increases in female employment, and long-term unemployment and poverty wages arising from skill deficits and labour market change.

Permanent Austerity and Creeping Conditionality

Critiques from the right and left have created a difficult environment in which to implement social security reforms. At the aggregate level, each critique appears to carry diametrically opposed policy implications – retrenchment versus expansion of social security. In fact, both critiques contribute to considerable strain on existing welfare arrangements, and give rise to pressure for fundamental reform.

It is a core claim of its proponents that basic income can help to alleviate both sets of concerns – that social security is both inadequate for meeting need and that it gives rise to harmful distortions in labour market and other behavioural incentives. How have policymakers dealt with the aforementioned tensions and contradictions in practice? While it is important to note that responses have varied across and within different welfare 'regimes', nevertheless we can point to some general trends.

As Pierson (2011) observes, "all of these emerging or newly-salient risks create potential demand for public expenditure. They are, in this sense, competitors for scarce resources with already-established social programs". As a result of these and other developments (see Gilbert, 2002), welfare states have faced budgetary pressures for over four decades – what Paul Pierson (1998) has called "permanent austerity". In combination,

these pressures have led to the proliferation of what Haüsermann (2012: 113) terms 'new social policies', which comprise transfers for new categories of claimant or 'risk group' but also, importantly, policies relating to **labour market activation and employability**.

According to the OECD (2017a), in general coverage of (relatively generous) social insurance schemes has become increasingly threadbare (although remaining more prevalent in continental Europe compared with the UK). Social assistance programmes pick up the slack – in the UK, the proportion of benefit expenditure devoted to means-tested benefits for non-pensioners has risen from 24% to 79% between 1978 and 2013 (Hood and Oakley, 2014) – with the caveat that they are less generous, give rise to perverse incentives, and are limited in substantive coverage due to the imposition of tests and punitive conditions that accompany payments.

As Painter and Thuong (2015: 15) observe, "essentially, the system has faced a legitimacy crisis of declining public support – and in many respects still does so. This has led to series of incremental reforms under the banner of 'conditionality'". Thus in the UK, in the past decades, we have seen the expansion of in-work benefits and coverage of new risk groups such as lone parents and carers, alongside the introduction of increasingly stringent eligibility restrictions, punitive welfare administration and decreased generosity of payments (Dwyer, 2004). According to the Joseph Rowntree Foundation (2014), labour market conditionality and associated sanctions regimes – which have been extended to previously exempt groups such as lone parents and disabled people – have pushed large numbers of vulnerable people into extreme hardship as well as causing profound anxiety. At the same time, there are question marks around the effectiveness of conditionality in terms of activating individuals into stable and well-paid jobs (ibid.). The twin policy dynamics of **permanent austerity** and **creeping conditionality** thus further erode the capacity of the system to adequately alleviate poverty and reduce inequality while ensuring the human dignity of welfare recipients. More recently welfare states across the world have also had to contend with the effects of the 'Great Recession' (Hemerijck et al., 2012). This has exacerbated pressure for retrenchment amidst greater need for social security to alleviate poverty in the context of higher unemployment and – in the case of the UK – declining real wages and rising wage inequality (Gregg et al., 2014).

Enter Basic Income?

In the context of these profound and varied problems, UBI's objectives include:

- The **dramatic simplification** of existing rules and conditions, both to reduce administrative costs and – perhaps

more importantly – to reduce the **psychological burden** and **stigma** associated with complex and intrusive rules and conditions.
- More **comprehensive coverage** of the population, and thus more effective **alleviation of poverty** and greater levels of **income security**.
- The elimination (or reduction) of **poverty**, **unemployment** and **bureaucracy traps** that discourage welfare recipients from engaging or advancing in the labour market, as described below.

The Alleviation of Poverty, Unemployment and Bureaucracy Traps under UBI

Key to understanding UBI's likely labour market effects are two important measures of financial work incentives: the participation tax rate (PTR) and the marginal effective tax rate (METR). The PTR measures the proportion of gross earnings lost through tax and/or benefit withdrawal while the METR measures the proportion of each additional unit of earned income lost to tax and/or benefit withdrawal. High PTRs and METRs rates lead to unemployment and poverty traps: these describe situations in which people face little incentive to enter employment, or to progress in work or increase their work effort, respectively.

In the UK, those in receipt of means-tested benefits routinely face effective marginal tax rates in excess of 90% (Brewer et al., 2010: 92); after a small 'disregard', benefits such as Income Support and Jobseeker's Allowance are withdrawn pound for pound. Although in-work benefits such as Working Tax Credit mitigate against unemployment traps and encourage labour market participation, they create poverty traps due to high withdrawal rates further up the income distribution (Brewer et al. (ibid.) report marginal rates of 73.4%).

The implementation of a non-withdrawable basic income – partly or fully in replacement of means-tested support – would tend to increase the incentives for inactive individuals to enter paid employment, since there would be a significant positive return to employment at any wage rate, for any number of hours, and of any contractual duration. Even if the person continued to receive means-tested support on top of their UBI, due to the lower payment they would be able to escape extremely high METRs more easily by earning smaller amounts of additional income.

Compounding the problem of weak financial incentives in highly conditional systems are so-called 'bureaucratic traps', which describe situations in which claimants are reluctant to enter employment due to uncertainty about how the change of circumstance will affect their benefits – even when the change of circumstance should result in a financial improvement.

Basic Income and the 'New Social Question'

Basic income has long been supported on the basis that it is a way to overcome a 'new social question' consisting of "a growing number of households... unable to secure access to adequate job assets" (Van Parijs et al., 2000: 54). Following Offe (2008), it is possible that wages may be **too low** to provide adequate income for workers and the dependent members of their households, or **too high** in the sense that they reduce the demand for labour below that required to achieve full employment (i.e. the level of employment at which everyone who wishes to work at the prevailing wage rate can do so). Indeed, the 'new social question' arises in the somewhat nightmarish circumstance in which the two problems can occur simultaneously: inadequate wages for low-skilled workers go hand in hand with high levels of unemployment. Basic income can tackle the dual problems of inadequate wages and high unemployment in ways that conventional social security cannot. As well as a conventional wage-replacement benefit for the unemployed, UBI can serve simultaneously as an **in-work benefit** – providing additional income to low paid workers, without discouraging work through poverty and unemployment traps – and as a **chosen-time subsidy** – permitting those who are so inclined to **reduce** their work effort or exit the labour market entirely, freeing up jobs for the involuntarily unemployed: the so-called 'reshuffle effect' (Groot and Van Der Veen, 2000).

Labour Market flexibility and Post-Productivist Welfare

Providing a secure unconditional income floor both encourages and enables individuals to take insecure and short-term (but potentially highly rewarding) jobs in the 'gig economy', and by the same token promotes entrepreneurship, creativity and innovation as captured by Bregman's (2017) conceptualisation of UBI as 'venture capital for people'. These features are especially desirable given ongoing labour market changes, as discussed below. Basic income may permit individuals to exit the labour market temporarily to engage in training activities, or it could facilitate lower-paid (but more promising) labour market activities such as apprenticeships. Clearly, these features have the potential to increase the flexibility and thus improve the performance of the labour market at the macro level as well as carrying benefits for individuals. Another way in which UBI interacts with the labour market is in its potential to increase the bargaining power of workers *vis-à-vis* employers. The extent to which basic income truly improves workers' bargaining position with respect to their wages and conditions is analysed in Chapter 4.

Increased bargaining power relates to the idea that basic income provides a full or partial exit option from employment. As suggested above, permitting full-time workers to reduce their labour effort frees up opportunities for the un- and

under-employed. But the benefits extend beyond those relating to the more efficient functioning of the labour market. Breaking the link between labour and financial compensation serves to promote the legitimacy and importance of all other forms of work which are currently uncompensated (Standing, 2013). Forms of work which may be under-valued from a societal perspective include caring for children and elderly relatives and engaging in voluntary and charitable service. In this sense, basic income may be seen as the basis of an emergent 'post-productivist' welfare regime in so far as it affords greater priority to "individual autonomy in [...] welfare and labour market arrangements" and rejects the valorisation of labour (Van Der Veen and Groot, 2006: 595). By the same token, some 'green' activists promote UBI as a way to simultaneously promote 'degrowth' (by reducing the material incentives for production and economic growth) at the same time as mitigating any adverse distributive effects (Birnbaum, 2010; Andersson, 2010).

"Existing welfare arrangements, in which entitlements are calculated at the household level, can harmfully distort people's partnering and family decisions"

The Promotion of Gender Equality

The ways that UBI simultaneously supports those on low wages and those engaged in non-labour market activities, while facilitating a reduction in work effort for others, provides a clear basis for us to analyse basic income's effects on gender relations and gender equality. A number of scholars (e.g. Robeyns, 2000 and McLean, 2016) have argued that UBI should in principle contribute to greater gender equality in the following ways. The individualised nature of UBI is seen to promote greater gender equality by reducing the dependence of women on their partner's earnings. Existing welfare arrangements, in which entitlements are calculated at the household level, can harmfully distort people's partnering and family decisions in two important ways. They can discourage people from forming partnerships due to so-called 'couples penalties' in the calculation of benefit payments and, perhaps more importantly, due to aversion to losing an independent source of income and tenure – particularly in the context of potentially unstable relationships, and particularly when there are children in the household (Griffiths, 2017a). Calculating and paying benefits at the household level can also trap people into situations of dependency, and may lead to financial abuse and inequitable income sharing in the presence of intra-household power imbalances (Hobson, 1990). Both of these distortions of family and partnering decisions imply negative consequences for gender equality: women are more likely to end up 'trapped' in single-earner households and more likely to be relatively disempowered within households. Furthermore, it is well-established that women tend to be disadvantaged in the labour market and do a disproportionate amount of part-time and low-paid work; for these reasons, the 'in-work benefit' aspect of basic income should strengthen their bargaining position relative to men. At the same time, the '-time subsidy' element should

enable men – who are more likely to work full-time – to reduce their hours of paid work and shoulder a greater proportion of unpaid care work. UBI could also help to address gendered inequalities in employment contribution histories and pension entitlements (Parker, 1993). In recognising the importance and value of unpaid care work (by providing those so engaged with an independent income) and compensating dual-earner families for their use of formal childcare services, it is argued that basic income should redistribute bargaining power towards women in a minimally presumptive manner – neither directing payments exclusively to care-givers (and thus contributing to their marginalisation from the labour market) nor penalising female workers.

Labour Market Change

While the preceding paragraphs have focused on the institutional features of and pressures on mature welfare states in seeking to explain growing interest in and support for basic income, an equally important justification – as reflected by popular narratives about basic income's rise – relates to fundamental structural changes with respect to the labour market.

Automation and the Spectre of Technological Unemployment

Automation is a broad term encompassing the range of ways in which technological developments influence labour market structures – what work will be done by human labour as well as where and how it will be carried out, and by whom. The OECD (2016a) summarise these developments as "ever increasing computing power, Big Data, the penetration of the Internet, Artificial Intelligence (AI), the Internet-of-Things, and online platforms". The upshot is that such technologies are able to carry out an array of increasingly sophisticated tasks – including those that require "reasoning, sensing and deciding" ¬– that were previously the sole preserve of human labour, leading to fears about 'technological unemployment'.

An influential study by Frey and Osborne (2013) has fuelled fears, estimating that about 47% of jobs are at risk in the US. However, these findings have been challenged by the OECD (2016b: 4), who criticise Frey and Osborne's assumption that "whole occupations rather than single job-tasks are automated by technology"; they estimate the proportion of jobs likely to be lost to technological advances at around 9% on average. Of course, even if 'only' 9% of jobs disappeared and were not replaced by newly created opportunities for employment, this would present a huge problem. But is this really likely?

Unemployment rose sharply in the aftermath of the financial crisis that erupted in 2007, but has fallen from a peak around 2010 for the OECD as a whole. There is a marked contrast

between the European and US figures: in 2015 US unemployment stood at around 5.29% while the EU average was 9.39% (OECD, 2017b). However, it is worth noting that although the US has relatively low unemployment, full-time employment ratios have also fallen, as people (especially men) have exited the labour market entirely (ibid.). This is in contrast to the EU, OECD, UK, and Japanese economies, all of which have seen increases in average employment rates between 2000 and 2015 (EU and OECD figures are simple average). On the whole, the data suggest that a significant proportion of unemployment is cyclical and will fall further as economic conditions improve (e.g. due to increased consumer confidence and reductions in government deficits).

On the other hand, recovery from the effects of the 'Great Recession' has occurred much more slowly than in comparison to previous recessions. One possible cause may be that long-term structural factors – including but perhaps not limited to automation – have exacerbated the effects of a recession that was, initially at least, largely cyclical in nature (Brynjolfsson and McAfee, 2012). In any case, it seems difficult to conclude with any certainty that automation has exhibited any negative causal effect on employment levels. This is especially true in the UK, which has maintained very high levels of employment even through the recession (Gregg et al., 2014), albeit subject to low levels of productivity and wage growth.

Absence of evidence is not evidence of absence, of course. But the data raise the question: why does technological unemployment seem not to have transpired? As Hughes (2014) notes, the danger of technological unemployment was first raised by Keynes (1930). Keynes' explanation for the danger referred to the "discovery of means of economising the use of labour outrunning the pace at which we can find new uses for labour"; in this way, the spectre of technological unemployment is explicitly related to demand deficiency in goods and services markets which lead to excess labour supply.

In the event, new labour-saving technologies did not lead inexorably towards increasingly severe levels of unemployment. As Vivarelli and Pianta (2000) document, there are five compensatory employment effects that counteract technological unemployment:

- **New machines and products** require workers to build and service them.
- **Price decreases** triggered by more efficient production processes stimulate demand for other products.
- **New investments** are instigated by the higher returns on capital that arise from more efficient production.
- **Higher wages** in activities and sectors that **complement** technology can stimulate demand.
- **Lower wages** in activities and sectors that **substitute for** technology can help labour markets to clear.

Of course, just because mass technological unemployment hasn't arrived, does not mean it won't. As Frey and Osborne (2013: 13) argue, increased computing power could ensure that 'destructive' effects of technology on demand for labour exceed 'capitalisation' effects. In any case, arguments in favour of basic income do not rest solely on the onset of mass unemployment.

Wage Polarisation, 'Lousy' Jobs, and Increased Income Inequality

In the early days of automation of manufacturing, the innovation of assembly lines ('Fordism') provided "a relative complement to unskilled labour, while substituting for relatively skilled artisans" (Frey and Osborne, 2013: 9). But gradually, technological developments have given rise to "a modern pattern of capital-skill complementarity" (ibid.):

> In short, while factory assembly lines, with their extreme division of labour, had required vast quantities of human operatives, electrification allowed many stages of the production process to be automated, which in turn increased the demand for relatively skilled blue-collar production workers to operate the machinery.

Due to steady productivity gains as well as the role of collective bargaining, even relatively unskilled blue collar workers were well remunerated in this era, since in the Fordist production model "increments of productivity linked to ever greater use of automated machinery... happen only as a result of paid operational activities" (Lucarelli and Fumagalli, 2008: 76). However, according to Lucarelli and Fumagalli (ibid.), Fordism has given way to an economic model that they term 'cognitive capitalism', a model to which intangible knowledge (both tacit and codified) contributes an increasingly large share of productivity gains in comparison to both physical capital and labour. Furthermore, "due to the internationalization of production, the diffusion of information and communication technologies, and innovations in the transportation of commodities, manufacturing activities have been shifting to developing countries whereas financial, technological, supervising, logistical, and control activities have been concentrated in the highly industrialized countries" (ibid.: 77).

These trends seem to imply that – in high-income countries particularly – demand for high-skill and knowledge-intensive forms of labour should rise relative to those requiring low skill levels. While intuitively appealing, this is too simplistic. As Goos and Manning (2007) observe, the impact is not differentiated by the skill level of specific jobs *per se*, but on the prevalence of routine tasks in specific jobs. In a nutshell, there are a whole raft of mid-skilled and well-paid jobs that nevertheless involved performing routine tasks – book-keeping, manually operating

machinery, and so forth. These are the jobs that are under threat from automation, in terms of technological unemployment and downward pressure on pay. On the other hand, technological change has made relatively few inroads in replacing low-skilled non-routine 'manual' jobs such as cleaning, or high-skilled non-routine 'cognitive' jobs that require human creativity or involve "professional and managerial" roles that are complementary to technology (ibid.: 118).

Technological change thus appears to strengthen the position of workers involved in industries featuring non-routine tasks that cannot be easily automated relative to those in sectors characterised by routine tasks. And herein lies the real problem with automation: that it contributes to greater polarisation between 'lovely' and 'lousy' jobs, hollowing out 'the middle' and exacerbating income inequality, rather than increasing unemployment *per se*.

"The concept of precarious work is not defined solely by contract type but also relates to income adequacy and social rights"

A further way in which technological change may be seen to lead to increasing levels of inequality is suggested by Lucarelli and Fumagalli (2008). The growing contribution of proprietary technology to 'value added' is appropriated by a small number of large powerful firms; to the extent that the development of valuable proprietary technology is subject to economies of scale, large firms have advantages over small ones, for which sunk costs associated with high-tech research and development activities present significant barriers to entry. These large powerful firms are able to use their market power in combination with outsourcing and offshoring strategies to increase their control over subordinate labour processes, thus reducing the share of revenue paid to labour. These conditions increase the opportunities for large firms to accrue economic 'rents' and motivate increased flows of financial capital towards investment in high-tech enterprises, returns to which also accumulate in such a way as to increase inequalities of wealth.

Growing Precarity and the Gig Economy

In addition to the trends identified above, some scholars argue that labour markets provide less security than prior to the globalisation era, beyond the proliferation of low-paid work (Standing, 2011). Although there are myriad conflicting definitions, precarious work has manifested itself in the proliferation of zero-hour, temporary and fixed-term contracts as well as involuntary part-time work or self-employment and low-paid work (McKay et al., 2012). As McKay et al. (ibid.: 5) note, while "full-time, permanent work remains the dominant form of employment relationship... there has been significant growth in a wide range of non-standard forms of employment relationship with the result that significant numbers of Europe's workers are now excluded from welfare benefits and/or employment protections". Thus, the concept of precarious work is not defined solely by contract type but also relates to income adequacy and social rights.

However, it is easy to exaggerate the nature and significance of these emerging trends, and to overstate their pertinence to the UK specifically. The employment rate and the number of people in full-time employment are the highest they have been since comparable records began in 1971 (ONS, 2017). Since 2013, the proportion of people in part-time jobs because they could not find full-time employment has fallen from 18% to around 12% (ibid.). Perhaps surprisingly, average job tenure has increased steadily over the past 20 years (Gregg and Gardiner, 2015). Gregg and Gardiner (ibid.) distinguish three groups: the workless 'disadvantaged'; 'insecure' workers who are either in part-time or in temporary jobs, lack employment rights associated with lower periods of tenure, or are relatively poorly paid; and the 'privileged', who tend to be in full-time, stable employment or well-established as self-employed. Based on these broad categories, they note that "there has been little change in the overall profile of insecurity... with 32 per cent of the working age population (excluding full-time students) classified as insecure in 2014, compared to 30 per cent in 1994" (ibid.: 5). However, they also find that young people are increasingly heavily represented among the insecure, while increasing numbers of older workers occupy privileged labour market positions. Furthermore, "there is evidence that a sizeable but growing minority are facing particularly acute forms of precariousness. Insecurity appears to have deepened rather than broadened" (ibid.: 9).

The Resolution Foundation reports that the use of zero-hour contracts in the UK has risen rapidly in the past decade, and probably far exceeds official figures. Zero-hour contracts are associated with low pay and underemployment (Pennycook et al., 2013: 3). While some workers might benefit from the greater flexibility that these forms of contract afford – and indeed it is possible that job creation is enhanced by employers' capacity to offer non-standard contracts – for many of those relying on a stable income, the situation is less that satisfactory; zero-hour contracts appear to be a manifestation of acute power imbalances between employers and workers (ibid.). Desperate people have no choice but to accept employment opportunities, exploitative or inadequate though they may be. For example, according to the Social Market Foundation think-tank (2016) around one half of officially-registered self-employed people earn less than the national minimum wage. These forms of labour are less likely to be a positive lifestyle choice and more reflective of difficulties finding adequately paid employment opportunities.

In summary, the evidence on labour market insecurity points to further polarisation of labour market outcomes. The so-called 'gig economy' provides opportunities for people to work more flexibly, but also carries the danger of precarious and irregular incomes, as well as being incongruous with conventional in- and out-of-work benefits.

Basic Income: a Necessity Given Technological Change?

Assuming that existing trends are going to continue and indeed become more pronounced, a number of recent analyses have presented basic income as an inevitable – or at least desirable – way to deal with these developments (Lucarelli and Fumagalli, 2012; Hughes, 2014; Srnicek and Williams, 2015; and Walker, 2016). Lucarelli and Fumagalli's (2008: 77) argument is that as "the link between productivity gains and real wage dynamics began to collapse, giving sway to a dramatic polarization of income distribution… a renewed social contract based upon a new compromise between capital and labor" has become increasingly important. Crocker (2015: 101) takes a similar view, emphasising that UBI is required in order to maintain levels of consumer demand in the economy. As he puts it:

> In a thought experiment of a totally automated economy with a machine plugged into the earth to produce the total GDP, there would be no wages. This is an extreme of [the more plausible scenario of] declining real wages. There would be no demand in the economy, rather than the deficient demand we have now. It's a Keynesian problem.

For Srnicek and Williams (2015), basic income is one element of reclaiming the emancipatory potential of technology without halting its (inevitable) march; the traditional tools of the left – state ownership, collective action, redistribution through generous social security programmes – are increasingly counterproductive in the context of today's rapidly changing global economy.

There are several counterpoints to these varied but ultimately analogous theses. One is simply that concerns about technological unemployment are exaggerated and sensationalist. This may be true but is less compelling in relation to arguments around wage polarisation and insecure work, which appear to be fairly stable long-term trends – although we cannot be entirely sure that technological change *per se* is to blame. According to Standing (2011), decades of neoliberal reforms have strengthened the hand of capital over labour; "as globalisation proceeded, and as governments and corporations chased each other in making their labour relations more flexible, the number of people in insecure forms of labour multiplied. This was not technologically determined". In any case, it is clear that automation (and the threat thereof) is one among numerous factors that are **exacerbating** the dysfunctionality of the labour market with respect to 'securing adequate job assets'; technological change *per se* is not required to make a case for basic income.

Against this point, it must be acknowledged that technological change does give rise to an especially robust argument for basic income. Trying to slow down or control technological change via public policy is surely ill-advised; there is a sense

of the inevitable march of progress. On the other hand, many adverse labour market changes have arisen as a result of power imbalances – between global capital, states and citizens – which have themselves been shaped by neoliberal public policies. In this view, there may remain tools other than basic income that can deal directly with hostile labour market trends rather than simply mitigating their worst effects. In this view, the decline of collective action and progressive taxation as tools for opposing the hegemony of capitalism can – and must – be opposed; but basic income is neither required for nor appropriate to the task. For some basic income critics, the post-work vision that a high-tech, basic income future promises is itself a "bad utopia for the left... It is a dangerous proposal that leaves us beholden to capital, the state, and money. In short, it consolidates capitalism" (Dinerstein et al., 2016). For others, of course, such as the technology entrepreneurs driving trends towards automation, this is precisely the point. But depending on one's diagnosis of the problems at hand, basic income may appear an expensive and ineffective way of providing an adequate level of income security for all – and one which would fail to promote the sense of fulfilment and meaning that purposeful labour can bring to people's lives.

The Significance of Increased Policy Attention

It seems unlikely that technological developments are going to lead to mass technological unemployment in the near future, although the prospect will remain a concern. A more likely scenario is that observable trends – towards greater polarisation of pay and conditions between lovely and lousy jobs, and the proliferation of increasingly insecure work for many – will continue. The question becomes, what are the political chances of actually implementing a radical reform such as basic income?

A key feature to understanding the recent policy interest in basic income is that it is able to bridge the "protective" and "productive" (activating) dimensions of the welfare state – to plug deficits in coverage that characterise residual and contributory systems while removing poverty and unemployment traps that characterise means-tested benefits, encouraging investment in human capital, and enabling people to balance their labour market activities and caring responsibilities more flexibly. These features of basic income are highly congruent with ongoing labour market trends and with policy feedback arising from gaps and tensions in existing welfare provisions.

On the other hand, the policy appears to contradict existing trends towards retrenchment and in favour of increasingly stringent and punitive conditionality. The outcome of conflicting pressure for and against basic income as a policy solution – and thus, whether it occupies a genuine and significant place in the

next phase of European welfare policy reform – is highly uncertain. As De Wispelaere (2016a) comments, "increased policy attention and political support counts as a valuable resource only to the extent that it can be calized upon by effective legislation. Facing up to the harsh political realities of welfare reform driven by principles of activation and austerity, how to proceed in moving the basic income proposal further up the policy agenda takes on a certain political urgency." In this context, we explore the core issues of political feasibility – and two of the main determinants thereof – in the coming pages.

3

Fiscal and Distributional Effects

Paying for UBI

A recurring criticism of UBI – which emanates from both left- and right-wing opponents – is that UBI is unaffordable. Van Parijs (2004) gives the lie to this statement. As he points out, the definition of UBI does not specify the level at which it is paid or how it interacts with the wider system of social security payments. It follows that "under some specifications – for example, 'abolish all existing benefits and redistribute the corresponding revenues in the form of an equal low benefit for all'" – UBI is clearly affordable, while under others such as "'keep all existing benefits and supplement them with an equal benefit for all citizens at a level sufficient for a single person to live comfortably' it is clearly not" (ibid.: 18). In other words, the question 'is UBI affordable?' is underspecified: it depends upon the specifics of the scheme, as well as what is meant by 'affordable'. On the latter as on the former, there are a number of alternative perspectives. We deal with affordability first, before looking at the fiscal costs of a number of concrete schemes in relation to potential revenue sources.

Alternative Perspectives on Affordability

A sensible definition of 'affordability' simply requires that expenditure on basic income must not exceed available sources of revenue in the long term; i.e. financing must be sustainable. Within this definition, we can distinguish a continuum of perspectives, ranging from conservative (in the sense that existing tax structures, and the overall levels of taxation considered as acceptable, are fixed) to more utopian (in the sense that radically reformed tax structures or alternative modes of financing may also be considered as viable options). Assuming that new taxes can be introduced, rates of existing taxes can be varied, and revenues can be reallocated from other purposes to pay for a basic income, the very concept of 'affordability' may be quite malleable. The debate largely hinges on different views about politically acceptable levels of taxation, and their associated effects on economic incentives.

The narrowest (most conservative) perspectives understand affordability in the context of existing expenditure and revenue levels. The rationale for this perspective on affordability is that spending increases have to be paid for via tax increases, which – when levied on personal or corporate income – distort incentives to work, save and invest. As a result, to the extent that UBI is condoned at all, the need for tax increases should be eliminated (or at the very least severely curtailed) through a combination of low payment levels and compensatory elimination of benefits.

A more common position among UBI advocates is to insist upon what Torry (2016b) calls 'revenue neutrality'. This means that increases in expenditure must be matched by increases in

revenue, so as not to exacerbate budget deficits – but does not impose restrictions on the level of resources that can be devoted to UBI[1]. Revenue neutrality does not preclude tax increases of any magnitude, although the sustainability of large tax increases may be limited as a result of behavioural distortions such as reductions in work effort, as well as tax avoidance and evasion. Furthermore, large tax increases may be seen as politically unfeasible regardless of their economic effects.

In contrast, more radical proposals such as Crocker (2015) view deficit financing as feasible and indeed desirable, and as such see no need to balance spending increases with commensurate tax rises. Van Parijs and Van Der Veen (2006) envisage a UBI paid at a level such that personal incomes are (eventually) effectively taxed at 100% (implying no differential reward to work effort). For the purposes of this report, such proposals are largely of intellectual curiosity – as exercises in 'realistic utopianism' – and we accept the parameters of the existing tax system as broadly 'given'. Thus, the following discussion proceeds on the understanding that the scope for tax increases is restricted by public perceptions and political feasibility, as well as by considerations of economic sustainability. This does not mean that a UBI paid at a significant level should be discounted. Perhaps the most critical aspect of the affordability debate concerns something we have so far neglected to mention – the impacts of the UBI that are attained for given levels of expenditure. These impacts comprise both **costs** and **benefits**. A given policy is 'affordable' – and indeed 'good value' – if it has net benefits for society as a whole, in comparison to alternatives. It is on this basis that Standing (2017: 154) suggests that far from UBI being unaffordable, given the huge social costs of poverty and inequality, "we cannot afford **not** to afford it". To the extent that UBI may serve as part of an activation strategy and have an explicitly 'productive' dimension, it may be considered a 'social investment' rather than a cost *per se*.

How Much Would Different UBI Schemes Cost?

Putting these arguments to one side for a moment, UBI – as discussed previously in Chapter 1 – comprises a family of schemes with variation around coverage, payment levels, and interaction with wider systems of social security. We also need to distinguish between gross cost of the UBI payments themselves, and net cost that accounts for the possibility of increased tax revenue and reduced expenditure on other benefits as a result of changes that occur in conjunction with the implementation of the UBI.

Here, we present some selected models already examined in

1. A more restrictive view of revenue neutrality is that only taxes substantively related to the UBI's goals and objectives should be considered in definition of neutrality – what Torry (ibid.) calls 'strict revenue neutrality'.

Martinelli (2017a) and Reed and Lansley (2016) (of which some are also discussed in greater depth below) in terms of their **gross costs**, for now assuming no compensatory changes to tax or benefit systems.

As shown in Table 1, the most modest scheme illustrated here has gross fiscal costs of £140bn. Under this scheme, payments equalling the value of the personal income tax allowance (PITA) for workers whose income exceeds the £11,000 threshold – £2,200 per annum or £42.19 per week – are made to everyone. The most 'generous' scheme, pitched at the level of existing wage replacement benefits for children and pensions **plus** the value of the PITA – £115.29 per week for working age adults, £197.79 for pensioners and £109.20 for children – costs £427bn.

For ease of comparison, the entire benefits bill (for the 2016-17 tax year) was £210bn; even the lowest payment level here represents two-thirds of that total. Obviously, increases in expenditure such as these appear highly unrealistic without significant changes to tax and benefit systems. The question then becomes: what tax and benefit changes would be required to render such UBI schemes fiscally feasible, and what would be their **combined** distributional consequences? We address these questions in the next sections, after considering first the various sources of revenue from which UBI can in principle be paid.

Table 1: Gross Fiscal Cost of Selected Illustrative UBI Proposals

Scheme/ Source	Payment Level (Per Week) and Structure	Gross Fiscal Cost
Model 1.1 Martinelli, 2017a	**Low:** £42.19 uniform payment for all children and adults	£140bn
Scheme 2 Reed and Lansley, 2016	**Low/moderate:** £71 for adults 25-64; £61 for adults 16-24; £51 for pensioners; and £59 for children	£209.5bn
Model 2.1 Martinelli, 2017a	**Moderate:** £73.10 for men (18-64) and women (18-62); £155.60 for pensioners; and £67.01 for children 0-17	£288bn
Model 3.1 Martinelli, 2017a	**Moderate/high** (as model 2.5 above, with disability supplements)**:** £35.75 for disabled adults; £76.65 for severely disabled adults (on top); £59.45 for disabled children; and £24.07 for severely disabled children (on top)	£326bn
Model 4.1 Martinelli, 2017a	**High:** £115.29 for working-age adults (18-64 for men, 18-62 for women); £197.79 for pensioners; and £109.20 for children 0-17	£427bn

Sources of Funding

In the abstract, the magnitude of these figures may be hard to comprehend: we need to situate them in the context of **existing tax revenue** and the **revenue effects of possible changes** to the

tax system.

In the 2015-16 tax year, HMRC (2016a) reported receipts of £533.6bn, of which:

- £282.2bn (52.9%) came from payroll taxes – £168.5bn (31.6%) from Income Tax and £113.7bn (21.3%) from National Insurance Contributions
- £44.4bn (8.3%) came from Corporation Tax
- £3.4bn (0.06%) came from the Bank Levy
- £7.1bn (1.3%) came from Capital Gains Tax
- £115.4bn (21.6%) came from VAT
- £27.6bn (5.2%) came from Fuel Duty

In this section, we consider the potential of four main types of tax in terms of funding UBI: payroll taxes, business taxes, property and wealth taxes, and natural wealth dividends and pollution taxes. Table 2, below, summarises the revenue effects of some illustrative changes to the tax system relating to each of these forms of taxation.

Payroll Taxes

As Van Parijs and Vanderborght (2017: 134) observe, personal income/payroll taxes (including social security contributions) are "by far the most obvious way of funding a basic income". In the UK system, income tax and national insurance contributions comprise over half of total tax revenue; the remainder is mainly comprised of corporate income, property, and sales taxes. Due to the amounts of revenue required to fund a substantial UBI, "it is difficult to imagine" funding a UBI "without relying at least in part on this form of [payroll] taxation". Indeed, as shown in Table 2, below, eliminating tax allowances (reductions on exemptions on standard rates) on Income Tax and National Insurance Contributions (NICs) would raise well over £100bn in additional revenue.

Another reason for the preponderance of payroll taxes in concrete UBI schemes is that the microsimulation models developed for the purpose of 'costing' UBI proposals utilise data on household incomes. For example, the Family Resource Survey (FRS) surveys 20,000 households on their financial position and a host of characteristics that jointly determine their tax liabilities and benefit entitlements. Liabilities for other taxes – such as consumption taxes, environmental or resource-use taxes, or wealth (e.g. land value) taxes – are not reported in the survey.

Payroll taxes may be the most immediately realistic way to fund a UBI, but are they a good one? The danger, as spelled out by Van Parijs and Vanderbrought (2017) is that higher marginal tax rates will alter individuals' incentives to work, thus threatening the financial sustainability of the scheme, as suggested above. It could also be added that forcing workers to pay for a UBI for those unwilling to work may be seen as inherently

exploitative (Howard, 2015), and undermines the notion that UBI is a just form of compensation for the private appropriation of commonly owned resources (see Appendix 1). These issues may help to explain the position of scholars such as Standing (2017) that UBI funding should be more focused on the reform of regressive subsidy schemes and corporation tax systems – on the redistribution of economic 'rents'. Some well-known options of this type, including land value taxation and taxes on the use of public resources for private gain, are discussed below. However, while it is difficult to disagree with the progressive principle behind such a position, it is important to remain circumspect about the practical and political possibilities for dramatically increasing taxes on the wealthy and powerful.

In any case, UBI affordability is usually considered in the context of changes to payroll tax rates and personal allowance thresholds, and these changes form the basis of the microsimulation studies we report in the second section of Chapter 3 and Chapter 4. However, there are a number of other notable revenue sources, the potential for which we discuss next. We discount the prospect of consumption taxes being used to fund a basic income on the grounds that such taxes are usually regressive, which appears at odds with any rationale for introducing UBI in the first place.

Business Taxes

As shown above, Corporation Tax comprised 8.3% of total tax revenue in 2015-16, while locally administered business rates raised just 4.3% of total revenue in 2012-13 (IPPR, 2013). As a result, these taxes would need to be raised very substantially in order to generate a significant amount of revenue. However, as payroll taxes are criticised because they distort labour market incentives, business taxes may be criticised because they distort incentives for hip and investment. Furthermore, taxing corporate profits is difficult due to the mobility of multinational firms and the scope for tax avoidance. In any case, the amount of tax raised by increasing Corporation Tax would be fairly negligible; an estimated £0.8bn for the current tax year (HMRC, 2016b), implying it could play only a small part in funding a UBI in the UK.

There are a number of more 'radical' tax reform proposals that relate more clearly to the idea of charging businesses that extract economic 'rent' through ownership and control of resources that should be owned in common. Taking a broad view of such resources, we might include "permission to create money, charge interest and provide financial service" as a common resource for which businesses need to pay a fee (Farley, 2016). According to Farley (ibid.), reforming and increasing the rate of the Bank Levy – a tax that raised just £3.4bn in 2015-16 – could generate an additional £10bn per year, based on the level of implicit subsidies currently received by the banking sector.

Table 2: Estimated Revenue Generated by Selected Illustrative Tax Changes

Tax Heading	Tax Change	Estimated Additional Revenue
Payroll Taxes	Increase in base rate of income tax by one percentage point	£3.9bn
	Increase in higher rate of income tax by one percentage point	£785mn
	Elimination of personal income tax allowance	£72bn
	Elimination of National Insurance lower earnings threshold	£21.2bn
	Elimination of National Insurance upper earning threshold	£25.1bn
Business Taxes	Increase corporation tax by one percentage point	£805mn
	Banking licenses*	£10bn
Property and Wealth Taxes	Increase standard rate of inheritance tax by one percentage point	£50mn
	Increase lower capital gains tax rate by one percentage point	Negligible
	Increase higher capital gains tax rate by one percentage point	£15mn
	Implement land value tax of three percent on residential land*	£158bn
Environmental and Natural Resource Taxes	Carbon tax of £20 per tonne of emissions*	£10.2bn

Source: HMRC (2016b) except items marked * which are based on estimates from Farley (2016).

Property and Wealth Taxes

Taxes based on the value of property are already in existence in the form of the locally-administrated Council Tax, which raised £26.3bn in 2012-13 (IPPR, 2013), and Stamp Duty, which raised £10.7bn in 2015-16 (HMRC, 2016a). Specific wealth taxes include Inheritance Tax and Capital Gains Tax, which generated £4.7bn and £7.1bn respectively in the same period (ibid.). As shown in Table 2, the revenue raised by increases in these taxes would be negligible in comparison to the costs of most UBI proposals, although they might contribute to a package of tax reforms that would generate sufficient revenue for some form of UBI.

A specific type of wealth tax that has many positive attributes and has been mooted as a potential source of revenue for a UBI is the **land value tax**. Unlike labour or capital, the supply of land is fixed, so taxing it is economically efficient; it would not reduce the amount of land available. It would also be progressive, and difficult to avoid or evade (Sarma, 2016). Again, such taxation can be seen as justifiable from the perspective that land ownership

– abstracting for the moment from the thorny problem of 'added value' – represents the appropriation of commonly-owned resources for private gain.

According to estimates by Farley (2016), taxing residential property at 3% per year would raise £157.2bn, taxing agricultural land at 2% would raise £6.9bn, and taxing commercial property at 6.5% would raise £51.2bn. Of course, there are substantial practical and political barriers to implementing such a tax, particularly at the aforementioned rates (IPPR, 2013).

Natural Resource Dividends and Pollution Taxes

Most concrete UBI proposals are costed on the understanding that UBI would be funded through tax revenues, but some – including the Alaskan Permanent Fund Dividend discussed previously – are funded through dividends on publically-owned assets, also known as 'sovereign wealth funds'. Sovereign wealth funds may be based on investment in financial or non-financial assets, but are frequently funded by 'windfalls' relating to revenue from the production of minerals such as oil or gas (Widerquist and Howard, 2012a; 2012b). The Alaskan Permanent Fund Dividend entitles every Alaskan resident an average of $1,150 per year – a fairly modest payment in a very sparsely populated and resource-rich state (McFarland, 2016). Payments also fluctuate widely; they were $2,072 in 2015, falling to $1,022 last year. Nevertheless, funds of this type can clearly contribute to the establishment of a partial basic income.

The general principle of pollution taxes is to discourage harmful activities by ensuring that producers and consumers face the 'social costs' of their actions. In this regard, an intriguing source of revenue for a basic income that has been mooted recently is a 'carbon tax' (Howard, 2012). In the US, a group of conservative economists have proposed that a basic income funded through carbon taxes would be efficient – sending out correct signals about the true costs of carbon emissions; fair, with broadly progressive incidence; and politically feasible, by overcoming antipathy towards taxes by distributing the proceeds in an automatic and transparent manner (Climate Leadership Council, 2017). According to Farley (2016), a carbon tax levied at a rate of £20 per tonne of emissions could raise about £10bn in revenue in the UK – only enough to pay for a very modest scheme.

Microsimulation of Illustrative Revenue-Neutral Schemes: Comparison of 'Full' and 'Partial' Schemes in the UK

The upshot of the preceding discussion is that any serious UBI proposal must be accompanied by significant revenue-raising

measures; we assume that even if deficit financing were desirable, the level of borrowing required to fund even the most modest of schemes would certainly be politically unfeasible. Clearly, whether these come in terms of tax increases, benefit cuts or both, they will have profound distributional consequences that need to be addressed.

The fiscal and distributional implications of UBI are intimately linked. Why should this be the case? Intuitively, we know that in order to contain net costs we must raise taxes and/or eliminate a large number of other benefits. The higher the level of UBI, the greater the compensatory changes will have to be. When other benefits are withdrawn as part of the UBI scheme, there is a clear trade-off between the goals of containing costs and ensuring that existing benefit recipients do not lose out – especially given that such people are likely to be disadvantaged in the first place. Increasing the level of the uniform payment helps to ensure that fewer households face significant falls in their income levels, but this obviously raises costs. This problem arises because a uniform payment cannot adequately cover the complex array of circumstances and needs for which social security systems are intended, unless it is pitched at a very high level. Prominent among such circumstances are those relating to disability, childcare and housing, each of which may give rise to specific costs which vary hugely across individuals and households. The problem can be stated succinctly as follows: **an affordable UBI is inadequate, and an adequate UBI is unaffordable**.

"There is a clear trade-off between the goals of containing costs and ensuring that existing benefit recipients do not lose out"

Is this really the case? In the following, we examine this proposition in relation to a series of schemes that are broadly revenue neutral, in the sense described above: that any increase in spending will be (roughly) matched with commensurate increases in tax revenue.

I summarise a number of the IPR's own findings (Martinelli, 2017a; 2017b) as well as those of Torry (2016a) and Reed and Lansley (2016). The aim is to compare two alternative and commonly-proposed approaches to designing a UBI: approaches that **eliminate most other benefits**, and those that **leave them in payment, recalculating them to take account of the UBI**. We call these 'full' and 'partial' UBI schemes respectively, although we note these terms are disputed.

A summary of the key features and fiscal and distributional effects of the four schemes analysed here is provided in Appendix 2.

Revenue-Neutral Schemes in which the Majority of Existing Benefits are Eliminated ('Full' Schemes)

IPR Working Papers (Martinelli, 2017a; 2017b) have modelled a number of schemes in which UBI payment replaces the majority

of means-tested benefits[2]. As we noted in Martinelli (2017a) part of the rationale for the introduction of UBI is the administrative simplicity and economic efficiency afforded by the elimination of means-testing, contributory mechanisms and employment-related conditions from the benefits system. The withdrawal and replacement of means-tested benefits, in particular, strengthens the rationale for the implementation of a UBI in terms of administrative savings, the reduction of stigma, and the elimination of poverty and unemployment traps through high withdrawal rates. For this reason, it may be intrinsically as well as fiscally desirable for existing benefits to be removed in line with the implementation of UBI.

The findings discussed in this section refer to two schemes modelled in Martinelli (2017a; 2017b) which are arguably the most plausible 'mainstream' proposals examined in those papers. These were named Models 2.5 and 3.5 in Martinelli (2017a) and Model B and C in Martinelli (2017b). For simplicity and to facilitate the discussion that follows, we refer to these schemes as **Full Scheme 1** and **Full Scheme 2**, respectively.

Both of the schemes cover the entire population, have payment levels consistent with existing levels of benefits – implying differentiated payments for children, working age adults and pensioners, as described below – and are implemented in conjunction with the elimination of the majority of benefits. In Full Scheme 2, an attempt is made to mitigate losses among households affected by disability by making an additional payment, designed to compensate for the loss of premiums associated with withdrawn working age benefits. Both schemes are compared with a 'base' scenario representing tax and benefit policies prevailing in the 2016-17 tax year, using 2016 FRS data. The details of the schemes are as follows:

Full Scheme 1: payment equal to level of standard benefits

Weekly payments, based on benefit levels in the 2016/17 tax year, are as follows:

- £67.01 for dependent children 0 – 17. This is based on the rates of Child Benefit (CB) paid for second and subsequent children (£13.70 p.w.), plus the maximum child element of Child Tax Credit (CTC) (£2,780 p.a.).
- £73.10 for working-age adults (18 – 64 for males, 18 – 62 for females). This is based on the basic payments for Employment and Support Allowance (ESA), Income Support (IS) and Jobseekers Allowance (JSA).
- £155.60 for pensioners (65+ for males, 63+ for females). This is based on the level of the Pension Credit (PC)

2. Following standard practice, means-tested Housing Benefit and Council Tax Benefit were retained.

standard minimum guarantee.

The UBI is combined with the withdrawal of the Basic State Pension (BSP), Carers' Allowance (CA), CB, CTC, ESA, IS, JSA, PC, and Working Tax Credits (WTC).

Full Scheme 2: payment equal to level of standard benefits, with disability supplements

Supplements are paid to any individuals determined to be 'disabled', with additional supplements paid to those also determined to be 'severely disabled'; see Martinelli (2017a) for details about how these statuses are ascertained. Payments are set at the same level as in Full Scheme 1, with supplements as follows (the intention has been to replace existing supplements and premiums as far as possible; see Martinelli (ibid.) for details about how the supplements are calculated):

- Disabled adults receive an additional £35.75 per week, being the amount of the ESA Support Group premium.
- Severely disabled adults receive an additional £76.65 (on top of the disability premium), being the sum of the ESA/IS enhanced disability (£15.55) and severe disability (£61.10) premiums.
- Disabled children receive an additional £59.45, the amount of the disabled child premium in CTC.
- Severely disabled children receive an additional £24.07 (on top of the disability premium), the amount of the severely disabled child premium in CTC.

As for Full Scheme 1, the UBI is combined with the withdrawal of BSP, CA, CB, CTC, ESA, IS, JSA, PC and WTC, and taken into account in the calculation of other means-tested benefits.

Tax Changes Required to Maintain Revenue Neutrality

The gross fiscal cost of these schemes would be £288bn and £326bn for Full Scheme 1 and Full Scheme 2 respectively. However, the elimination of other benefits (as described above) reduces the welfare bill by £145bn and £147bn respectively. This leaves a shortfall of £143bn for Full Scheme 1 and £184bn for Full Scheme 2.

In order to render the models (broadly) revenue neutral, we eliminate the PITA and abolish the lower and upper thresholds for National Insurance Contributions[3]. In addition, retaining the ex-

3. This means that employees pay a rate of 12% on all earned income. In the existing system, NICs are not paid below the primary threshold limit of £155 per week and are paid at a greatly reduced rate of 2% for those earning more than £827 per week.

isting progressive tax band structure, we would need to increase the income tax rate across all tax bands by 4% in the case of Full Scheme 1, and 8% in the case of Full Scheme 2.

Distributional Implications

Considering the large increase in benefit expenditure and associated tax rise, it is perhaps surprising to see that Full Scheme 1 has quite unfavourable distributional consequences. These include an increase in working-age poverty of around 7% and – surprisingly given the generous rates of payment for children – an increase in child poverty too (of around 1%). In addition, the Gini coefficient measure of inequality increases by around 4%.

Moving to the more detailed findings reported in Martinelli (2017b), a large number of households would lose out from the proposed scheme: 42% of households would see their disposable incomes decrease, with 6% losing more than 25% of their previous income. While the distributional consequences of Full Scheme 1 are progressive on aggregate – with the bottom four income quintiles gaining on average and only the upper quintile losing out – nevertheless "large numbers of poor and middle-income households would be significantly worse off: 7% of the poorest households lose over 25% of their initial income and over a fifth of quintile 2 [...] would lose over 10% of their income compared to the base scenario. Thus, while the richer quintiles lose more in absolute terms, those in the poorer quintiles who lose do so by a proportionally greater amount of their income" (ibid.: 30).

The distributional implications of Full Scheme 2 are more favourable; this is unsurprising since the purpose of the introduction of the supplements was to compensate disabled individuals – albeit in a fairly 'blunt' manner – for the reduction in support they would receive as a result of a uniform payment replacing one tailored to their specific needs. As a result, both child poverty and working-age poverty rates fall by a considerable amount: around 14-15%. In addition, there is a marked fall in the Gini coefficient of inequality, by 5.5%.

However, the more detailed findings presented in Martinelli (2017b) provide some cause for concern. 44% of households would experience income losses under this scheme, with 10% losing more than 10% of their previous income. While there are fewer households experiencing very large losses (over 25% of previous income) than Full Scheme 1 – 1% compared to 6% – such losses are far from trivial. And while the distributional consequences of the scheme is highly progressive on average, there are still unacceptably high proportions of households losing out among the lower income deciles: a significant minority (8%) of households in quintiles 1 to 3 would stand to lose over 10% of their base income.

UBI Schemes in which Existing Benefits are Retained and their Levels Recalculated ('Partial' Schemes)

One way around the adverse distributional effects found in the schemes above is to take an alternative approach: rather than eliminating a large array of means-tested benefits, to leave them in payment, recalculating their level taking into account the new UBI payment. This is the approach taken by Torry (2016a) and Reed and Lansley (2016), both of which aim to identify immediately feasible schemes.

In this section I summarise the findings of Torry's (2016a) Scheme β and Reed and Lansley's (2016) Scheme 2.

Scheme β

The model is compared with a base scenario representing tax and benefit policies prevailing in the 2015-16 tax year. Weekly payments are as follows:

- £60 for adults 25-64
- £50 for adults 16-24
- £30 for pensioners
- £20 for children (0-15)

All benefits are left in payment, with the UBI taken into account in the (re)calculation of means-tested benefits.

Scheme 2

The model is also based on the 2015-16 tax and benefit policies. Weekly payments are as follows:

- £71 for adults 25-64
- £61 for adults 16-24
- £51 for pensioners
- £59 for children (0-15)

In this model, Child Benefit is eliminated but all other benefits are left in payment, with the UBI taken into account in the (re) calculation of means-tested benefits.

Tax Changes Required to Maintain Revenue Neutrality

Torry does not report the gross cost of Scheme β, but Scheme 2 costs £209.5bn per annum. Reed and Lansley (2016) report that the recalculation of means-tested benefits saves around £41bn – far less than the saving implied by the elimination of all major benefits in the schemes described above. We can assume that figures for Torry's Scheme β would be in the same ball park; both the costs and savings would be smaller, accounting for the lower payment levels.

Both schemes eliminate the PITA and harmonise NIC rates, in common with Model 2.5 and 3.5. In addition we would need to raise all income tax rates across all tax bands by 3% in the case of Scheme β and 5% in the case of Scheme 2. Scheme 2 still has a net cost of just over £8bn after these tax increases.

Distributional Implications

Scheme β has a number of favourable distributional consequences. Torry (2016a) reports reductions in child poverty rates of around a third of their original level, and a fall in adult poverty of around a fifth. A key finding is that the scheme would impose "almost no disposable income losses on low income households at the point of implementation", in direct contrast to Models 2.5 and 3.5 as described above. Inequality measured by the Gini coefficient falls by 8.6%, and the numbers of claimants receiving various means-tested benefits, as well as the average value of claims, would fall.

Scheme 2 has similarly favourable effects. The reduction in child poverty is larger than that predicted under Scheme β, at around 44%, but adult poverty levels fall by a smaller amount, approximately 14%. Reed and Lansley do not report the proportion of households gaining and losing overall, but among the poorer income deciles around three quarters of households gain from the reform, with only very small number experiencing losses. As for Torry's scheme, there is a substantial fall in the number of claims to means-tested benefits, and a modest reduction in the Gini coefficient.

A Three-Way trade-off in Policy Design

It is clear that the partial schemes (in which all other benefits are retained and recalculated) fare much better than the full schemes (in which a large number of benefits are eliminated) in striking a balance between controlling fiscal cost on the one hand, and ensuring positive (or minimising adverse) distributional consequences on the other. It is probably correct to say that as a result, the former approach is the most feasible policy design option. The models of Torry (2016a) and Reed and Lansley (2016) appear to demonstrate that it is possible to design a UBI such that it is both affordable **and** adequate.

Nevertheless, there are several reasons why this conclusion should be interpreted with caution. The first is simply that maintaining means-testing implies that some of UBI's most important goals must be sacrificed: specifically, reductions in administration costs and the bureaucratic intrusion that go hand in hand with means-tested benefits, and improvement in work incentives via removal of poverty, unemployment and bureaucracy traps. As we concluded previously (Martinelli, 2017a), the design of UBI schemes is indeed subject to a three-way trade-off between the goals of controlling cost, meeting need, and improving

administrative simplicity and work incentives (through the elimination of means-testing). Not only does this represent an important challenge to basic income's normative appeal, but it also presents a predicament for attempts to build strategic alliances between different advocates with different priorities and goals. We return to these issues in Chapter 5.

The second reason for caution is that demonstrating that UBI could have positive distributional consequences does not mean that it would be the best or most effective way to reduce poverty, or that the required tax rises would be politically acceptable. UBI is often seen as diverting scarce financial and political capital away from more pressing issues. No amount of favourable microsimulation modelling could detract from the ethical objection that, in Offe's (2008) words, "there are so many things waiting to be done in the world". The analysis confirms that UBI is an expensive policy option, in comparison to other more targeted schemes; this is hardly surprising, but important nonetheless. It could easily be countered that the partial schemes described here are unaffordable **given their fairly limited effects** and/or (equivalently) that they are **inadequate given their huge fiscal implications**; "a powerful new tax engine will pull along a tiny cart (a partial and inadequate basic income)" (Gough, 2016). This becomes particularly important if a specific scheme also fails to deliver the goals of administrative simplification and improved work incentives, as suggested above.

"Demonstrating that UBI could have positive distributional consequences does not mean that it would be the best or most effective way to reduce poverty, or that the required tax rises would be politically acceptable"

Finally, we note that the microsimulation analyses summarised above are static models; they fail to take into account the possibility of behavioural (labour market) change. This is an inevitable shortcoming of the approach, but a potentially important one considering that such a radical reform as basic income is likely to result in changes in labour market participation, as we examine in Chapter 4. In light of large rises in tax rates in all models, and the retention of means-tested benefits in the partial schemes, we might expect labour market responses to erode the tax base, calling into question the validity of our findings that such schemes really are affordable.

4

UBI's Labour Market Effects

UBI's Impact on Labour Market Participation

As discussed in Chapter 3, one element of basic income's 'affordability' – in terms of the sustainability of revenue streams – connects to the impacts that higher payroll taxes would have on labour market participation. However, given the contested nature and significance of this particular issue, UBI's labour market effects warrant separate discussion.

Basic income has highly ambiguous labour market effects, in terms of overall levels of participation, wage levels and working conditions. This helps to explain why, for some advocates, UBI has the potential to increase labour market participation while, for critics, it is more likely to lead to labour market withdrawal. Adding to the complexity is that labour market effects are likely to vary across individuals – depending upon a host of characteristics such as their position in the labour market (e.g. their actual or expected wage), benefit recipiency status and preferences – and depend upon the wider labour market institutions (for example in terms of employment protection and minimum wage legislation) as well as the specifics of the UBI scheme in question (especially the level of payment).

Income and Substitution Effects, and Measuring Financial Work Incentives

A key to understanding individuals' responses to financial work incentives lies in the twin concepts of income and substitution effects (see Gamel et al. (2006) and Gilroy et al. (2012) for further discussion of these concepts). We assume for simplicity that individuals face a trade-off between **income** (which equates to consumption) on the one hand and **leisure** on the other. The individual's preferences for income and leisure, and the amount of leisure they would be required to sacrifice in order to attain an additional unit of income – their effective wage rate – jointly determine the amount they decide to work.

The **substitution effect** relates to how much leisure the individual must sacrifice for more income; in other words, their effective wage rate. This depends on taxes on employment income as well as, crucially, the extent to which benefits paid to inactive and/or low-earning individuals are withdrawn as the individual enters employment or earns more money.

In order to describe UBI's likely labour market effects we need to introduce three important measures of financial work incentives: the participation tax rate (PTR), marginal effective tax rate (METR), and replacement rate (RR).

- The PTR measures the proportion of gross earnings lost through tax and/or benefit withdrawal.
- The METR measures the proportion of each additional unit of earned income lost to tax and/or benefit withdrawal.

- The RR measures the ratio of 'out-of-work' income to 'in-work' income (i.e. how generous out-of-work benefits are in comparison to net earnings).

Higher values of these indicators imply weaker financial incentives to work as determined by the substitution effect, with very high values leading to unemployment and poverty traps. These describe situations in which people face little incentive to enter employment, or to progress in work or increase their work effort, respectively.

The **income effect** relates to how much leisure and income the individual chooses to enjoy as a result of being able to afford more or less of both. In other words, the income effect represents the effect of a change in the effective wage rate, abstracting from the change in relative prices between income and leisure; it is a function of the individual's preference for each.

The substitution and income effects of tax and benefit changes can work in opposite directions. Consider an increase in the indicators above (PTRs, METRs and RRs) arising from a hike in the rate of income tax. Thinking about the substitution effect, working would become relatively less attractive compared to not, since the effective wage rate would have fallen; the individual might choose to reduce their work effort accordingly. On the other hand, the individual would have to work even more to consume as much as before – and, given their preferences, the income effect might lead them to choose to swap leisure for additional consumption (i.e. increase their work effort). *A priori*, we cannot know the direction of the income effect or the relative magnitude of either effect, although we know that the substitution effect will negatively affect work effort.

Substitution Effects

For anyone in receipt of means-tested benefits, a UBI paid in- and out-of-work would imply reductions in PTRs, METRs and RRs compared to existing provisions. The substitution effect of these reductions would tend to increase labour market participation, although the income effect could conceivably work in favour of increased leisure and reduced work effort if the UBI were more generous than benefits previously in payment.

Against these effects are those arising from generalised increases in tax rates that usually accompany most UBI proposals (see Chapter 3) that imply higher PTRs, METRs and RRs, *ceteris paribus*. Evidence on the effect of tax rates on labour supply is summarised by Meghir and Phillips (2010). In general, the evidence conforms to our intuition that higher tax rates tend to reduce work effort; there is general consensus that although the substitution effect tends to exceed the income effect for changes in marginal rates, the effect varies significantly across different groups. It is also worth noting that workers do not have complete flexibility to vary their hours of work, even if it were optimum for

them to do so. In any case, the precise effect depends on the relative magnitudes of income and substitution effects, which vary at the individual level.

Income Effects

Gilroy et al. (2013: 44) posit that there are a number of groups for which the income effect would tend to be strong – given existing preferences for leisure and work – and for which we might expect "a sharp decline of labour supply". These groups comprise those with weak labour market attachment and/or low earning potential, such as "the long-term unemployed, women looking after children, elderly employees, and possibly young entrants to the labour market" (ibid.). This tendency would be stronger for groups that would have been ineligible for means-tested benefits but who would (obviously) qualify for a UBI, because the substitution effects described above would not be working against it. Relatedly, these effects would be stronger for individuals whose partners earn relatively high wages, since this would disqualify them from benefits means-tested at the household level.

Family Structure and Sex

One of the most important factors that determine individual labour market decisions is how going into work (or working more) would affect **household** income, since couples are likely to 'pool' their income. This means that the financial incentives faced by primary and secondary earners within households depend on the earnings of the other, and how they affect their eligibility for benefit as a household. As a result, a non-worker partnered with a high-income main breadwinner would face substantially different work incentives compared to one living alone or with a low-earner (Adam et al., 2006). These dynamics explain why analyses of the effects of tax rates on labour participation have found clearly gendered effects, as Meghir and Phillips (2010: 204) summarise:

> Hours of work do not respond particularly strongly to the financial incentives created by tax changes for men, but they are a little more responsive for married women and lone mothers. On the other hand, the decision whether or not to take paid work at all is quite sensitive to taxation and benefits for women and mothers in particular.

Given the above, theory suggests that within couples, basic income would lead to a reduction in work effort by women compared to men, given their relatively weak attachment to the labour market and lower wages. Indeed, this conforms to the findings of Sommer (2016), who modelled a negative income tax form of basic income. Applying theoretically-derived labour supply elasticities to German survey data, Sommer shows that

households 'optimise' their combined level of labour supply through a reduction in female labour supply among married women. On the other hand, he finds that single men and women both increase their labour supply. This confirms the finding of Kimball and Shapiro (2008) that "family labor supply decisions rather than sex *per se* accounts for most differences in labor supply decisions between men and women".

The Role of (Un)conditionality

"Theory suggests that within couples, basic income would lead to a reduction in work effort by women compared to men"

Another important factor in determining the likely effect of a basic income on labour market participation – neglected thus far – is the lack of behavioural conditions attached to UBI. According to economic theory, such conditions, when combined with punitive sanctions, should increase the costs of 'idleness' and increase job search engagement – increasing the claimant's motivation and capacity to find work. McVicar's (2010) reports evidence that intensified job search monitoring has reduced unemployment. Gregg (2008) concludes that conditions attached to out-of-work benefits "have been highly effective".

Is the relationship between conditionality and labour market participation really so clear-cut? For several reasons, the reality is murkier. Firstly, the evidence base is fairly sparse; as JRF (2014) notes, "it is hard to separate out the distinct impacts of higher levels of support, intensifying conditions, and/or greater exposure to sanctions". There are theoretical complications too. Depending on the design and implementation of the conditions and sanctions, it is possible that claimants would be better off engaging in job search activities of their own design rather than applying for a set number of positions to fulfil bureaucratic quotas and attending compulsory appointments and courses. Indeed it is possible that such policies may even discourage more meaningful training and skills development activities (Immervoll and Pearson, 2009). Relatedly, the impact of the threat of labour market conditions on 'job match quality' – and therefore the longevity of any resulting employment ¬– may be negative, if sanctions preclude the refusal of even unsuitable jobs. Indeed, this is the basis of the efficiency argument in favour of generous unemployment insurance entitlements more generally (Marimon and Zilibotti, 1999; Caliendo et al., 2013). According to recent insights from behavioural economics, pecuniary incentives can 'crowd out' intrinsic motivation to work (Pech, 2010), and the distrust inherent in the sanctions regime may encourage claimants to exert minimal effort (Verlaat and De Bruijn, 2016). As Pasma (2010) notes, intrinsic motivations for work are likely to be quite profound:

> The assumption that people are motivated only by fear of poverty dismisses the wide range of human experience and motivation. People choose to participate in paid work for many reasons, including self-fulfilment, sense of vocation,

ambition, the opportunity to participate in a larger project or activity they find meaningful, to achieve goals, to use skills and talents in particular areas, and to benefit from the unique social interactions that exist in a workplace. For many people, work is an important expression of identity.

Such arguments suggest that be the personalised support elements of conditionality – which is entirely consistent with UBI – are more likely to encourage labour force participation than the punitive elements. Forthcoming experimental evidence on these issues will be highly valuable.

Empirical Evidence

How do our theoretical expectations conform to empirical observations? Notwithstanding the limitations to experimental evidence discussed in Chapter 1, we can draw out several lessons from the North American negative income tax experiments of the 1970s.

In summary, the data suggest that the provision of an unconditional income floor was a marginal disincentive to work. On average across the US studies, men reduced their working hours by 6%, married women by 19%, and single women by 15% (Hum and Simpson, 1993). The reduction in labour market effort was even smaller for the Canadian study: 1%, 3% and 5% respectively for the same categories (ibid.). As Widerquist (2005) points out, it is by no means clear that even the larger reductions in labour supply would damage the case for basic income. Firstly, the labour market exodus predicted by UBI's fiercest critics clearly did not materialise; and secondly, if the UBI permitted people to balance their work and home lives more effectively – especially women overburdened by a combination of domestic and paid work – the reduction in work effort could conceivably have contributed to increased societal welfare. This relates to arguments that basic income scholars have made in favour of the provision of an 'exit option' to strengthen the bargaining position of workers and to enable them to engage in unpaid but socially-valuable activities – arguments we consider next.

Exit Options, Bargaining Power and Labour Market Institutions

It is a curious characteristic of UBI that proponents stress – at various times and in different contexts – two apparently contradictory goals. On the one hand, a large part of UBI's rationale is to increase labour market participation through the elimination of poverty and unemployment traps. On the other, many advocates point to the capacity of UBI to provide an 'exit option', allowing people to reduce their labour market effort or quit the labour

market entirely. The issue is complicated by the multiplicity of versions of UBI that exist; it seems intuitive that a more generous UBI would be more likely to reduce labour market participation and improve the bargaining power of the recipient than a modest one, since it would enable one to live relatively comfortably without earned income. As Gray (2017) notes, "the higher the basic income in relation to the individual's hourly wage, the greater would be the likely reduction in labour supply from people already in paid work". It is also complicated by individual circumstances: as we have already demonstrated, UBI is likely to increase financial work incentives for some individuals while encouraging others to reduce their work effort. This is the basis of 'the reshuffle effect' introduced in Chapter 2.

But even within a single UBI scheme and for an individual trapped in inactivity or unemployment there is really no contradiction between the goals of **encouraging work** and simultaneously **providing income security irrespective of work**. It is entirely consistent for basic income scholars to argue that the concept would increase labour market participation at the same time as conferring workers with 'the power to say no'.

How Does Basic Income Affect Wages and Conditions?

Like the majority of basic income advocates, Standing (2013) challenges the moral primacy of labour; exploitative 'dead end' jobs are of scarce value to society while many unpaid activities are profoundly important. It is a good thing, in this view, to provide people the chance to escape these forms of labour to engage in more important, valuable and fulfilling activities.

Nevertheless, as Birnbaum and De Wispelaere (2016) rightly argue, the idea that basic income provides a realistic exit option is problematic. Unless pitched at a generous subsistence level, work would probably still be a necessity for the majority of people, and certainly for the most disadvantaged; the chances for 'radical exit' (leaving the labour market altogether) would be minimal (ibid.). Nevertheless, would not basic income strengthen the hand of **all** workers by permitting **some** to reduce their hours – or to exit the labour market temporarily to find alternative work¬– thus forcing improvements in the pay and conditions of the least advantaged too?

A number of scholars have refuted this. The problem arises because labour markets are stratified, with some workers able to exercise market power due to a relative shortage of essential skills and others facing intense competition for jobs – especially so in sectors in which production can be 'offshored', for example. Of course, low pay, precarious conditions and significant power imbalances characterise the latter segments of the labour market. Thus, "whereas the exit option is primarily geared at offering a secure basic floor to the most vulnerable, it may be precisely this target population that is disproportionately disadvantaged in terms of having the real opportunity to exercise their

exit option" (ibid.: 4). Furthermore, because of the way that a basic income would strengthen the hand of heterogeneously-advantaged workers unequally, it might drive "a wedge in between different workers' factions, thereby harming collective solidarity in ways that are particularly damaging to vulnerable workers" (ibid.: 8). The lack of an exit option for such workers, and their weak bargaining position with respect to employers, means that basic income could end up **exacerbating** poor pay and conditions if other workers were willing to reduce their wage demands as a result of the unconditional payment. Thus as Parker (1991) notes there is the danger that basic income "would aggravate the problem of low pay and subsidise inefficient employers" (Parker, 1991: 13) leading to a proliferation of 'lousy' jobs. As Kenworthy (2015: 17) notes in relation to explicit wage subsidies, "employers might offer a lower wage than they otherwise would, and workers may be willing to accept a lower wage. Also, the subsidy may increase the supply of less-educated people seeking jobs, and without an increase in employer demand for such workers, this rise in supply is likely to push wages down".

However, as we argued previously (Martinelli, 2017b), basic income is not a wage subsidy *per se* and differs in the respect that with a UBI, individuals unwilling to work at the prevailing wage rate are not forced to do so under threat of losing their benefit as well – as is the case with a wage subsidy[1]. For these reasons, the effects of a UBI on pay and conditions are ambiguous.

In any case, it seems apparent that the direction and magnitude of these effects also vary in line with different levels of UBI payment, as Gray (2017) observes:

> A basic income that was high enough to enable people to refuse low pay or very insecure work would probably reduce the total of hours worked and the number of jobs offered... But if the basic income was not high enough to enable people to refuse 'bad' jobs, it would have the opposite effect – low pay would be more acceptable and employers would recruit more

1. As we argued then (p. 18):

the logic of this [wage subsidy] argument as it pertains to basic income is largely based on evidence on the wage suppressive effects of in-work benefits – necessarily, given the lack of empirical evidence on basic income *per se* – and in our view, the conclusions have somewhat limited validity when applied to the latter. In-work benefits are by necessity conditional not only on a work test but also on a means test. Thus, the combination of means-testing and work conditionality that characterises in-work benefits results in two implications:

- Workers are not able to reduce their labour and continue receiving benefit payments.
- Workers are (relatively) indifferent between higher or lower pay; the state tops up their income to an acceptable level anyway in the case of the latter.

Thus, theoretically speaking, means-tested in-work benefits can only suppress the reservation wage. By contrast, precisely because the payment of basic income is not conditional on employment or income, the effect on the reservation wage is ambiguous: it lowers the amount of employment income required to achieve an acceptable total income (exerting downward pressure of wages) but, at the same time, it permits individuals unwilling to work at the prevailing wage rate to enjoy a higher level of consumption regardless.

easily at low wages than if there was no basic income.

Thus, our expectations are consistent with our understanding of how UBI affects labour market participation, with the erosion of pay and conditions possible (but not inevitable) in instances in which labour supply is expected to increase, and *vice versa*. As Van Parijs (2004: 17) puts it, basic income does indeed create "a potential for offering and accepting low-paid jobs that currently do not exist", but it simultaneously "makes it possible to spread bargaining power so as to enable (as much as is sustainable) the less advantaged to discriminate between attractive or promising and lousy jobs".

Is a Minimum Wage and Employment Protection Still Necessary?

The preceding arguments have clear implications for debates about the utility of wider labour market policies, such as minimum wage law and other forms of employment protection. One line of argument proceeds that if workers have a secure income floor, such policies are redundant. As Groot (2002: 153-4) argues, "there is no need for minimum wage legislation, since workers are protected already by means of free access to a basic income... There is no need to have legislation on the rights of flex-workers, the number of vacation days, working hours, compulsory retirement, etc. **All these issues can be left to the market**". Indeed, such measures may be not only redundant but actively counter-productive, contributing to involuntary unemployment by preventing employers from offering terms which individuals would be happy to accept.

But such arguments presume that a UBI would eliminate exploitation wholesale, a conclusion that does not appear justified by the evidence. On the contrary, if the arguments reviewed previously – that a low level of basic income would have a wage-dampening effect and increase competition for low-paid jobs – are correct, then these types of labour market policies would be essential to prevent employers from rolling back pay and conditions.

At the heart of the controversy is what type of basic income is most desirable, and which of its many goals should be prioritised. A modest basic income combined with substantial labour market deregulation would appeal most strongly to libertarians and others for whom the main case in UBI's favour relates to economic efficiency, labour market flexibility, and activation. A generous basic income alongside robust minimum wage legislation and employment protections is like to appeal to progressive UBI supporters for whom a robust exit option should be further bolstered by other forms of state intervention against workplace exploitation.

Analysis of Specific Proposals

In this section, we examine two sources of evidence: analysis conducted in the context of preparation for the ongoing Finnish experiments (Kela, 2016 and Kangas et al., 2017), and the IPR's own analysis of two schemes in the UK context (Martinelli, 2017b).

Microsimulation of Finnish 'Partial' Schemes

Kangas et al. (2017) undertake microsimulation of the financial work-incentive effects for two basic income schemes paid at two different levels (€550 and €750 per month). The schemes are both 'partial' basic income at levels in which "the aim is not to replace other current transfers to the same extent as in full basic income" (Kela, 2016); all other benefits remain in payment, with the levels of means-tested social assistance benefits and housing allowances adjusted to take the basic income into account. In this sense, the schemes broadly resemble those discussed in Chapter 3 of this report (Torry, 2016a; Reed and Lansley, 2016), although of course we cannot generalise from the Finnish to the UK context in any meaningful way due to differences in their respective social security and tax systems.

As Kangas et al. (2017) recognise, an important factor motivating interest in basic income in Finland is the potential the policy has to "combat various work incentives built into the present system" (p. 90). For simplicity, the authors replaced the existing progressive income tax structure with the flat tax required to attain revenue neutrality – 43% and 50.5% for the €550 and €750 payments respectively – and proceed to examine how the implementation of a basic income affects work incentives. The authors report participation tax rates for three hypothetical individuals: an unemployed person in receipt of mean-tested unemployment assistance, another in receipt of unemployment insurance, and a lone parent with children in (means-tested) day care. All of the individuals are in receipt of housing allowance.

As shown in Table 3, the general picture is mixed – and quite complex, reflecting the complexity of the existing system of social security in Finland. Under the €550 basic income, the social assistance recipient faces improved work incentives when moving into work at all earning levels, and when moving from part-time to full-time work. On the other hand, the social insurance recipient faces deteriorated work incentives moving into part-time work paying €500 per month. The situation is similar under the basic income of €750 per month, except at that level – implying higher income tax rates – the circumstances in which individuals face weaker work incentives are more common. The lone parent faces higher participation tax rates when moving into all levels of work at both payment levels, with the exception of a very marginal reduction in participation tax rates when moving

from €1,000 to €2,000 per month in earning, under the €550 scheme.

Table 3: Summary of the Financial Incentive (Participation Tax Rate) Effects of the Finnish Partial Basic Income Schemes on Three Illustrative Claimant Types

Individual Circumstance	Change in Wage (€ per month)	Existing System	€550 Basic Income	€750 Basic Income
Unemployed, No Social Insurance Benefits	0 – 500	80.0	50.2	63.9
	0 – 1000	65.1	63.6	74.0
	0 – 2000	65.2	60.8	66.2
	1000 – 2000	65.3	58.0	58.3
Unemployed, Social Insurance in Payment	0 – 500	36.9	50.2	63.9
	0 – 1000	51.7	63.6	74.0
	0 – 2000	66.3	60.8	66.2
	1000 – 2000	80.9	58.0	58.3
Lone Parent	0 – 500	29.3	54.4	60.4
	0 – 1000	42.0	64.7	72.8
	0 – 2000	70.3	81.2	87.8
	1000 – 2000	98.7	97.6	102.9

Source: Kangas et al. (2017)

In summary, Kangas et al. (2017: 91) conclude a partial basic income such as modelled here "would not necessarily increase the monetary incentives for part-time work. The level of basic income, the level and form of taxation, and the manner in which current social benefits are reformed all have a substantial impact on the resulting participation tax rates". Furthermore, this is a conclusion arising from examination of groups which face poor incentives in the existing system – those entangled in the benefit system. If we take into account work incentive effects for the working population as well – and thus the effects of generalised increases in tax rates – the results would likely be even less favourable for UBI's credentials as an 'activation' measure.

Microsimulation of UK 'Full' Schemes

In Martinelli (2017b), we go further than Kangas et al. (2017) in our microsimulation of work-incentive effects; whereas they restrict their reported findings to illustrative groups, as described above, we examine changes in METRs and PTRs across a representative sample, which enables us to see how work incentives vary across the population on average and for specific sub-groups. We also analyse the proportions of individuals facing improved

or deteriorating work incentives. In this brief, we restrict discussion to PTRs, for methodological reasons covered in the original report[2].

As in Chapter 3, our analysis is based on two schemes – Full Scheme 1 and Full Scheme 2 – argued to be the most plausible of those examined in our working papers, in which a UBI replaces the majority of benefits for children, wage replacement benefits, and old-age pensions; Full Scheme 2 includes supplements designed to compensate individuals for the loss of disability premiums previously in payment. Refer to Chapter 3 for details of the schemes.

Our main findings are provided in table form in Appendix 3, and discussed below.

"These averages mask a great deal of complexity, with high proportions of 'winners' and 'losers' in both schemes"

Overall Effects on PTRs

Full Scheme 1 leads to a reduction in PTRs – improved work incentives – of about 1% across the population on average. Full Scheme 2 has the opposite effect, increasing PTRs by about 6% on average. These averages mask a great deal of complexity, with high proportions of 'winners' and 'losers' in both schemes; even under Full Scheme 1, over half of all individuals – 57% – face higher PTRs than before, while under Full Scheme 2, two thirds face weaker work incentives, with almost a half of the population facing PTRs 25% higher than previously. At the same time, for each scheme there are still large numbers of individuals facing improved work incentives. It is important to understand how these effects are distributed in more detail.

Effects on PTRs by Income Level and Means-Testing Status

In this regard, it is encouraging to see that the work incentive effects of these schemes, like the distributional consequences, are broadly progressive; that is, reductions in PTRs are on average larger, and affect larger proportions of the population, among the lower income quintiles.

Under Full Scheme 1, the three poorest income quintiles face improved work incentives measured by reductions in PTRs – an average reduction of 12% for the poorest quintile, 5% for quintile 4, and 2% for quintile 3. For the bottom two quintiles, the majority of individuals face improved work incentives – 68% of the poorest quintile. In contrast, only 15% of the richest quintile face an improvement in their PTR, with an increase, on average, of 8%. However, even the poorest three quintiles contain a high proportion of individuals with weaker work incentives – approximately a quarter of each face PTRs at least 25% higher than they

2. The indicators of METRs are likely to understate improvements in work incentives under basic income (Martinelli, 2017b: 40).

previously faced.

Under Full Scheme 2, the results are still 'progressive' but only the poorest income quintile faces an average reduction in their PTRs (of 8%), with 61% of individuals facing stronger work incentives. The remaining quintiles have very high proportions of individuals facing significantly weaker work incentives.

Finally, we turn to the distribution of changes in PTRs by household means-testing status. This is perhaps the most important distinction since, as described above, the theoretical grounds for claims that UBI has the potential for activation through the elimination of poverty and unemployment traps rests on those currently receiving means-tested benefits facing reduced PTRs and METRs under a basic income. Indeed, there is cause to be optimistic about these potential effects. For both Full Scheme 1 and Full Scheme 2, individuals residing in households in receipt of at least one means-tested benefit face significantly improved work incentives – with PTRs falling by an average of 17% and 4% respectively. Furthermore, a clear majority of such households face improved work incentives, although approximately a quarter of each face significantly higher PTRs.

Implications for the Desirability and Feasibility of Basic Income

Given our theoretical expectations, it is unsurprising that the majority of workers would face weaker financial work incentives as a result of basic income schemes which require substantially increased rates of income tax and the elimination of personal allowances and NIC thresholds. What is important about our findings is that demographics that are important in the context of debates about poverty and unemployment traps – lower income groups and those subject to means-testing – **do** face significantly improved work incentives. It is important to understand that this is a feature of the replacement of means-tested benefits with a non-withdrawable income. As such, although we have not examined partial schemes directly in the UK context, one implication of our work – drawing on the theoretical literature as well as findings from modelling in the Finnish context – is that schemes which retain a full complement of means-tested benefits are likely to be much less desirable with respect to likely effects on work incentives and labour market participation. Modelling the financial work incentives of such schemes should prove to be a fruitful line of enquiry. Nevertheless, we are confident in stating that partial schemes are likely to disappoint many basic income advocates favouring the policy on the grounds that it would activate large numbers into employment. Of course, the predicament is that only such schemes appear remotely feasible based on their combined fiscal and distributional implications.

Much remains uncertain about basic income's labour market

effects. Ultimately, our microsimulation work has focused on one among many determinants of labour market participation – the financial return to working *vis-à-vis* inactivity. As the preceding literature review demonstrates, this is by no means the only factor affecting labour supply decisions, nor necessarily the most significant in relation to a reform as fundamental as basic income would be. We cannot say much if anything about likely income effects, or the impact of detaching labour market conditions and sanctions from social security payments. Similarly, we have made no attempt here to estimate supply responses to changing financial incentives based on imputed labour market elasticities, as in Sommer (2016). Applying such methods to UK survey data could be another important avenue for future research, although it is important to note the limits of the approach (Figari et al., 2014).

Ultimately, a full understanding of the issues discussed here is probably beyond the scope of the microsimulation approach. There are too many complex factors at play to accurately model how individuals would respond to a basic income in reality. In this regard, the ongoing and forthcoming experiments (discussed in Chapter 1) – notwithstanding their failure to conform to the definition of basic income in the strictest sense – represent a vital opportunity to learn more about basic income's labour market effects.

5

Political Feasibility and Implementation Issues

In this chapter we close with some thoughts about the prospects for UBI and related policy developments in the UK context, building on insights from political science and literature on the comparative political economy of welfare reform. In a nutshell, specific welfare state configurations generate specific patterns of winners and losers which respectively oppose and support challenges to the status quo in the political realm; welfare reforms must necessarily build on existing institutional legacies and political economic realities. The success or failure of specific policy initiatives such as basic income depends upon the capacity of advocates to construct robust and cohesive coalitions of support around specific proposals.

The UK has a liberal welfare system with longstanding opposition to generous and universal welfare (Taylor-Gooby, 2004); public attitudes have hardened against 'undeserving' recipients of working age welfare (Pearce and Taylor, 2013; Taylor-Gooby and Taylor, 2015). These factors, in combination with trade-offs in design features that preclude the simultaneous satisfaction of multiple important policy goals in a single UBI scheme, seem to caution against the prospects for basic income 'proper' being introduced into the UK system **at all**, but particularly the more generous schemes. On the other hand, there are some features of the UK welfare system that appear to present opportunities for moves towards UBI – or at least towards adopting some of the core principles and design features of UBI. However, there is no guarantee that the introduction of highly partial schemes or the adoption of selected features of UBI would lead inexorably towards the implementation of more comprehensive forms of basic income.

The discussion proceeds as follows. In the first section of Chapter 5 we introduce a generic framework for understanding welfare reform. In the second section we review potential sources of support for and opposition to basic income. In the final section we provide an overview of the UK system, before turning to discussion of the forms that basic income might take in the UK, and some reflection on the feasibility of alternative trajectories for implementing UBI in sequenced fashion.

An Analytical Framework of Welfare Reform: The Role of History and Politics

In the seminal *Three Worlds of Welfarepitalism*, Esping-Andersen (1990) investigated the role of politics and 'power resources' in the formation and stability of different types of welfare state regime. Social-democratic, corporatist and liberal welfare 'regimes' are distinguished, corresponding to Scandinavian, continental European and Anglo-Saxon countries respectively. In basic terms, each regime has emerged as a result of the specific historical context in which actors formed (or were unable to

form) broader political coalitions. Schröder (2013: 5) summarises concisely:

> In Scandinavia, the working class formed a coalition with small, capital-intensive and politically well-organized farmers and then took the middle class on board by providing high-quality social services and public jobs. In liberal countries, the middle class could largely care for itself in the market, so the welfare state became residual, caring only for the poor. In continental Europe, labour-intensive large-scale farmers were in a coalition with conservatives that isolated the labour movement. A state-administered system of welfare benefits tied them to the state by protecting them against social risks.

"While this 'path dependency' does not preclude significant reform, it surely limits the extent to which we observe dramatic shifts in policy"

As Korpi and Palme (2003: 425) put it, "it is fruitful to view welfare states as outcomes of, and arenas for, conflicts between class-related, socioeconomic interest groups and that in these distributive conflicts partisan politics is likely to matter".

There is a 'path-dependent' logic: the resulting 'regimes' or configurations regimes are remarkably durable, attributable to "institutional legacies, inherited system characteristics, and the vested interests that these cultivate" (Esping-Andersen, 1996: 6). While this 'path dependency' does not preclude significant reform, it surely limits the extent to which we observe dramatic shifts in policy, serving to explain why welfare reforms are usually of a 'piecemeal' nature; it delimits the nature and direction of possible reforms; and it helps to explain the persistence of institutional diversity across welfare states. The timing and sequencing of events is crucially important since 'policy feedback effects' (Mettler and Sorelle, 2014) can reinforce an existing trajectory, leading to stability and the remarkable "persistence of diversity" (Bonoli and Palier, 2000); but they can also lead to tensions and contradictions that can trigger debate and generate proposals for reform. While it may be the case that 'piecemeal', evolutionary reform is the norm with respect to welfare policy, every now and then there are significant changes in direction – 'punctuations' to longer-term equilibriums (True et al., 2007). In either case – stability or change – 'history matters'.

At risk of oversimplification, comparative analyses of welfare state development point to the congruence of and interaction between two main factors:

- The policy and institutional 'architecture' of the welfare state – including the specifics of policy design features, such as social and labour market policies more broadly; policy goals; and underlying political-philosophical principles.
- Broader structural (political economy) factors, such as sectoral composition; labour market features such unemployment, wages, and the nature and extent of precarity; the incidence of poverty and inequality; and

fiscal dynamics.

The interplay between political economy factors (and the vested interests that they generate) on the one hand, and the design and implementation of welfare reforms on the other, are mediated by political factors such as the electoral system and party political dynamics. In other words, particular forms of welfare state emerge as a response to idiosyncratic (country-specific) manifestations of common socio-economic pressures; and in turn, the policies and institutions that are thus formed shape the broader structural features of the political economy.

Thus, the nature and extent of policy reform that we observe depends on the characteristics of the welfare state in question – the extent to which existing policies and institutions give rise to path-dependent processes that reinforce their stability, and the extent to which they give rise to tensions and contradictions which lead to demand for more radical reform. In both cases, the causal mechanisms – through which policy feedback effects determine the nature and extent of subsequent reform – involve the mobilisation of different constituencies through strategic political activity, either in support of the status quo or of alternative policy solutions.

The Relative Strength of Constituencies For and Against Basic Income

In short, if basic income were to be introduced into an existing welfare state, it would have to fit with the aforementioned legacies, characteristics, and vested interests of that state; it would need to be tailored to the specific nature of policy problems to be addressed and the parameters within which policymakers are restricted. These factors feed into the nature and relative significance of political constituencies that would support, oppose, and adopt an ambiguous position in relation to basic income. This would, of course, affect the likelihood of any form of basic income being introduced at all, as well as the forms of basic income that would be most desirable and feasible, and the manner in which basic income could (most) feasibly be implemented.

There are basically two ways to conceive of the factors that determine whether an individual will support a given political cause: in terms of (material) self-interest, and in terms of normative appeals to justice, irrespective of self-interest. In order to become a constituency, a group's members must have a shared interest in a reform that is sufficient to warrant political mobilisation. What are the prospects for robust constituencies in support of basic income on these bases?

There are several constituencies that should, in principle, be supportive of UBI on the basis that they would benefit from the

policy's idiosyncratic features. According to Standing (2011), the 'precariat' – a term that encompasses a wide variety of circumstances connected by a sense of labour insecurity – forms a distinct labour class. If he is right, the precariat indeed comprise a broad constituency that would be in favour of basic income. But is the precariat a coherent class in the sense of shared interests, and does it have the capacity to mobilise political resources strategically to attain basic income? This is less clear.

Thinking about the groups that make up the precariat may be instructive. Perhaps most obviously, workers with insecure employment patterns – whether happy members of the 'gig economy' or those yearning for a stable permanent job – should find a basic income most appealing, since they face highly fluctuating incomes. They also have very little hope for adequate social protection – both because in systems that are built for the default employed/unemployed dichotomy they may fail to meet stringent criteria for social assistance, and because they may fail to accrue sufficient contributions for social insurance benefits. According to Rehm (2016), welfare state preferences depend upon an individual's risk of needing support. In this case, those facing labour market precarity can be expected to support efforts to make social security more attuned to their circumstances and risk profiles. Low-paid and part-time workers too should benefit in principle; for them, UBI would top up their incomes with minimally imposing administrative requirements. Unfortunately, these labour market 'outsiders' "tend to lack the financial and human resources that make for robust social movements" (Van Parijs and Vanderborght, 2017: 185).

"Workers with insecure employment patterns – whether happy members of the 'gig economy' or those yearning for a stable permanent job – should find a basic income most appealing"

Following Van Parijs and Vanderborght (ibid.), women are another potential constituency of support; to the extent that they are involved disproportionately in low-paid and part-time employment and unpaid care, UBI would "reduce the pro-male bias in the distribution of earnings and of social insurance benefits". But as well as not representing all women (in the sense that some women do not identify as such or oppose the gendered division of labour *per se*), even the feminist movement is not unambiguously in favour of basic income. Feminist critics (e.g. Gheaus, 2008) have argued that given women's already weaker attachment to the labour market, it is women and not men who would withdraw from the labour market to do more domestic and care work. Thus, an unconditional income paid to men and women alike might reinforce existing gender roles, exacerbating issues relating to dependence, intra-household inequality, and labour market disadvantage.

Another constituency that might be expected to support UBI is people entangled in the current system, who feel the effects of its complexity and intrusiveness. But their support might ultimately dissolve if they were materially disadvantaged by the changes (as many would be in the full schemes analysed in Chapter 3) or if the complexity of the system was in fact retained, with only marginal increases in payments (as in the partial

schemes analysed in Chapter 3).

In any case, all of these groups are by no means homogenous and would not unambiguously support UBI due to self-interest alone. Some groups may stand to benefit from a basic income, but not sufficiently to warrant political mobilisation. Even the least ambiguous constituency with respect to support for basic income – workers with insecure employment patterns – include groups who would be 'cross-pressured' by the proposals, such as 'high-skilled outsiders' (Häusermann et al., 2015) who might currently rely on precarious employment but also a) earn sufficiently large incomes to be discouraged by the higher taxes that UBI would imply and b) expect with confidence to attain more secure employment in the future.

Furthermore, the constituencies most vulnerable to 'new social risks' – and therefore in principle supportive of fundamental social security reform along the lines of UBI – also lack political power (Bonoli, 2005). The position of trades unions – a constituency that has been instrumental in the formation of the modern welfare state – is ambiguous; UBI does not necessarily serve the interests of the labour market 'insiders' (those with stable jobs and secure social security arrangements) that comprise trade union memberships, if reforms would erode their privileged access to generous social protection (Vanderborght, 2006; Van Parijs and Vanderborght, 2017). As noted below, powerful trade unions that are involved in the administration of social insurance funds can exert veto power over reforms that are detrimental to their interests and to those of their membership. This suggests that UBI reforms may be especially difficult to achieve in social security systems characterised by the dualisation of labour market protections between labour market insiders and outsiders; see Rueda (2007) for analysis of the implications of insider-outsider politics, and Palier (2012) on the dualisation of welfare provisions in the context of recent European reforms.

More generally, the tax rises required to fund a UBI at any significant level of payment are likely to generate broad opposition among the working population, the vast majority of whom would face higher marginal rates, even if their overall net tax burden might fall. Ultimately, the proportion of households that would support a basic income on grounds of self-interest would depend upon design features of the specific scheme – in particular the levels of payment and accompanying tax reforms. Basic income could in principle be designed to be highly progressive and thus benefit the majority of the income distribution at the expense of the richest in society – generating strong opposition from a group with high levels of political mobilisation. This might also generate opposition on the grounds of fairness, and based on the belief that it is important to maintain strong material incentives for hard work. This connects to a second set of arguments about UBI's political feasibility, related to normative opposition.

Party Politics, Coalition Building and Varieties of Basic Income

To simplify somewhat, and adapting the framework of Gingrich and Ansell (2015), the dynamics of welfare state reform reflect the outcomes of electoral competition between parties that occupy some point on a right- to left-wing spectrum; as they put it, "all parties would like to introduce policy that aligns the interests of new voters with those of the party while also delivering benefits to the base". UBI does not appear to be a strong candidate by these criteria.

"While basic income has supporters across the political landscape, it also has detractors – and the large family of basic income proposals provides a wide target at which to direct criticism"

As Van Parijs and Vanderborght (2017: 170-1) observe, "political feasibility is intimately linked to ethical justifiability". Politics is guided not only by material interests, but by ideas. And in this regard, there are a number of serious normative objections to be overcome if UBI is to garner the growth in support required to sustain the idea beyond the realm of discussion towards the legislative agenda of a ruling government. Torry (2016b) seeks to demonstrate that UBI is politically feasible by showing that it contains features that appear attractive to adherents of a number of contrasting ideological and political-philosophical perspectives. Torry's claim is analogous to the pronouncement that basic income is 'neither right nor left, but forward'. But this argument appears to minimise an equally important claim: that there are elements of basic income that are **unattractive** to the main political philosophies.

Thus, while basic income has supporters across the political landscape, it also has detractors – and the large family of basic income proposals provides a wide target at which to direct criticism. The fact that basic income represents a large family of schemes – incorporating residual, libertarian proposals such as Murray (2006) as well as generous, progressive schemes – enables detractors to criticise the least desirable type of basic income (from their particular perspective). Thus, basic income's association with 'undesirable' political views permits left-wing parties opposed to basic income to speak to their constituencies of support (workers, unions, labour market outsiders, and welfare recipients) of UBI as a project to dismantle the welfare state. At the same time, right-wing parties can play to their support base (employers and relatively wealthy individuals) by claiming UBI would inflate the role of government in welfare provision and dampen incentives for self-provision.

For parties on the left and right, specific forms of basic income might bring in new voters, but they would do so at the cost of at least some existing support. This appears to be responsible for the facts that support for basic income mainly emanates from minor parties lacking significant prospects of achieving office, and that support is often dropped when prospects become more realistic: the problem of 'cheap political support' (De Wispelaere, 2016c).

The strength of normative opposition and the lack of any

coherent, powerful and committed constituency of support – on the right or the left – suggests that basic income may require the construction of a relatively broad coalition if the idea is to gain traction in the political realm. But here again basic income runs up against difficulties. UBI advocates across the political spectrum have different ideas about key design parameters and priority objectives, based on the material interests and ideological positions of their target demographics. In terms of ideology, support from the 'opposite' political side may taint the concept of basic income by association: progressives cannot get behind a policy supported by right-wingers, and vice versa. As De Wispelaere and Noguera (2012: 23) put it: "some instances of political support for BI may even be counterproductive as support from one particular faction or group may prevent others from endorsing the same policy".

More fundamentally still, satisfying the 'progressive' interests of traditional supporters of the left (trade unions and workers) at the same time as conforming to the 'market friendly' preferences of the right's base (employers and wealthier voters) may be impossible to achieve in a single scheme. Thus, what De Wispelaere (2016c) calls the 'problem of persistent political division' among supporters may exacerbate the political challenge of building cohesive coalitions around UBI. This division can coalesce around a number of issues, including design features (payment generosity, interactions with the wider benefit system, the fiscal implications of reform, and administrative factors[1]) and the priority goals of policy (for example, whether reducing administrative costs, minimising bureaucratic intrusion, improving work incentives, improving coverage of risk groups, redistribution, improving labour market flexibility, strengthening workers' bargaining positions) – on which political actors have a disparity of views.

The Prospects for a Basic Income in the UK: Design Features and Implementation Trajectories

As we have argued, the feasibility of (specific varieties of) basic income must be seen as a function of the relative significance of political opposition to and support for reform (*vis-à-vis* the existing system) and the extent to which (different forms of)

1. For example, De Wispelaere and Stirton (2013) note that in practical administrative matters, UBI schemes may differ in terms of the extent to which they offer cost savings (by dispensing with entitlement tests), the effectiveness of the processes through which intended beneficiaries are identified and ineligible claims are rejected, and the processes through which payments are disbursed. Broadly speaking, there will be trade-offs between prioritising the worst-off in society (by ensuring payments are substantively and not just nominally universal, and minimising bureaucratic intrusion) and minimising the use of bureaucratic resources. "Thus, UBI administration is not simply a matter of addressing the residual technical questions in a politically neutral fashion, for the choice of a specific programme design impacts differentially on the set of winners and losers" (ibid.: 925). How these issues are navigated will determine the level of political support for specific schemes.

basic income fit with existing policy and institutional 'architectures' and prevailing trajectories of reform. How do these factors appear to line up in the case of the UK?

The UK has a liberal welfare state. Social security benefits are low level and flat rate, coverage is highly selective on means-testing criteria (i.e. benefits only accrue to the poor), and entitlement is attached to stringent and punitive labour market conditions. In comparison to its mainland European neighbours, the political economy of the UK labour market is built around labour flexibility and the strength of the service sector. These characteristics in combination with labour market policies and institutions have resulted in low levels of unemployment, but high levels of wage inequality and in-work poverty. The UK's labour market profile thus suggests that the unemployed are unlikely to be a significant constituency, at least compared with our European neighbours – but that there are a large number of working poor who might comprise a constituency for basic income.

A final institutional factor that is encouraging for UK proponents of basic income is the highly integrated labour market structure (Gingrich and Ansell, 2015). This contrasts with dualised structures in 'conservative' European welfare states, in which large social insurance funds hold effective vetoes over social security reform, and in which the interests of labour market 'insiders' diverge from those of labour market 'outsiders', rendering progressive coalitions less cohesive. The flipside of this is that the UK arguably lacks a coherent constituency of labour market outsiders who are disadvantaged with respect to social rights and protections (and who might support a basic income for that reason).

According to Larsen (2008), the institutional features of welfare systems feed through into public attitudes to welfare. Due to the limited coverage of benefits and relatively low levels of unemployment, the non-poor majority are more likely to view the poor as undeserving and personally responsible for their situation (ibid.). Indeed, public support for welfare has declined significantly in recent decades, especially for able-bodied claimants who are seen as 'undeserving' (Taylor-Gooby and Taylor, 2015), suggesting that support for unconditionality is currently limited. These features of the UK system seem to work against solidarity between workers and out-of-work benefit claimants.

One set of intriguing developments is towards benefit homogenisation and harmonisation of administrative procedures and conditions. These processes are already underway as a result of the implementation of Universal Credit (Jordan, 2011; 2012). Arguably, the more easily a proposed reform can 'piggy-back' on the administrative apparatus of the existing system, the less costly and disruptive reform is likely to be. More generally, the greater the degree of similarity between the existing structure of payments and a given reform, the more feasible that reform appears to be. In this regard another institutional factor that

appears to work in favour of basic income is the UK's relatively generous personal income tax threshold. As suggested by Painter (2016), this could easily be repurposed as a universal payment that would simply "rectify some of the current distributional anomalies of personal allowance where those who earn the least receive less support". The possibility of so doing means that those designing UBI schemes can conjure up a large proportion of the revenue required without ostensible increases in income tax rates, which might otherwise be politically unacceptable. It is also worthy of note that because UK social security payments are funded through general taxation rather than earmarked social insurance schemes, the government has more flexibility to carry out reform than many continental European countries. However, this is not to say that such a move (the repurposing of personal tax allowances as benefits) would be straightforward, politically speaking. Even if workers were compensated so as not to lose out, they might oppose tax increases for ideological reasons; indeed, it is politically salient that recent Coalition and Conservative tax and welfare reforms have focused on reducing tax burdens on low-income households, rather than increasing benefit levels (Chrisp, 2017).

"Overarching trends in the recent past of UK welfare reform have been towards increasingly stringent conditionality"

Notwithstanding the institutional similarities between Universal Credit and UBI, overarching trends in the recent past of UK welfare reform have been towards increasingly stringent conditionality. While at first glance it is hard to see how this can be rectified with an optimistic view of basic income's prospects, we note that policy feedback effects may act against complex and intrusive conditions as more people – including the new targets of in-work conditionality under Universal Credit – become affected by them. As Griffiths (2017b) writes: "three million low-income working households – the very hard working and 'just about managing' families that Theresa May's government is meant to be helping, and who would formerly have remained outside the system of behavioural conditionality – will be drawn into its unyielding embrace". The resulting backlash could ultimately pave the way for less conditional – and potentially even unconditional – systems of state support.

These factors suggests that, to the extent that any form of basic income is politically feasible in the UK, residual schemes aimed at reducing poverty and unemployment traps and supporting the working poor – as opposed to more generous redistributive schemes – are more likely to achieve political traction. Coalitions on the right would almost certainly oppose a generous UBI which would strengthen the bargaining position of labour and necessitate large tax rises, but would be more likely to accept one with wage suppression effects accompanied by measures designed to increase labour market flexibility.

Maximal and Minimal Implementation Trajectories

Advocates often acknowledge that a universal basic income paid at a non-trivial level – their preferred option – is not immediately politically feasible. For instance, Torry (2013) identifies two alternative strategies for implementing UBI, based on his understanding of policy reform processes in the UK context. These strategies are to provide a basic income for one demographic (age) group at a time, and to provide a small unconditional payment for everyone.

A Small Basic Income for Everyone?

On the face of it, the argument for either of these strategies seems persuasive. But on closer inspection, the option of paying everyone a very small basic income is less appealing. A full basic income – with all the benefits that might come with it – is a hard political sell, and does not look very likely in current circumstances. Pursuing an interim option may not be as desirable, but will bring some of UBI's benefits. It will be politically more palatable – costing much less in fiscal terms – and will fit more easily into existing institutions and administrative procedures, since it will not require major upheavals.

However, such a strategy is not without danger. It is not clear that partial models will give rise to full complement of advantages on which basic income is sold. There may be administrative savings arising from the elimination of means-tested or other benefits that are functionally replaced by a basic income. Thus we concur with De Wispelaere and Stirton's (2016: 302) conclusion that "a basic income pitched around the poverty line may accrue important administrative savings that are not present when the level of basic income is substantially less: in that case, other means-tested programmes will pick up the slack, with all attendant administration remaining firmly in place". Indeed, partial schemes – such as those in which means-tested benefits and their associated administrative systems are retained – may represent the worst of both worlds: UBI may be unable to 'piggyback' on existing systems and institutions, requiring brand new ones operating alongside those that already exist. In such a situation, UBI could represent greater rather than reduced administrative complexity and cost.

Against this, partial schemes clearly balance the goals of controlling fiscal expenditure and ensuring the minimisation of adverse distributional consequences more effectively, as discussed in Chapter 3. On balance, the curtailment of fiscal costs – in conjunction with the minimisation of large household losses – appears much more likely to affect the political feasibility of proposals, since they represent a much larger proportion of the policy's total costs. If a basic income were to be implemented in the UK with universal coverage and non-trivial levels of payment, it would almost certainly be of the types analysed in Chapter 3

as partial schemes. But it is also worth noting that such a form of UBI would have limited appeal to proponents whose priorities are to reduce bureaucratic complexity and reduce high withdrawal rates, thus reducing the prospects of a broad coalition in its favour. To an even greater degree, a UBI pitched at a much less significant level is likely to be challenged as a waste of time and political capital, given that even very small payments would still involve spending billions of pounds of scarce fiscal resources on rich and poor alike. This appears improbable in a political climate in which Child Benefit has recently been subjected to means-testing for the first time.

A Basic Income for Specific Age Groups?

Torry (2016b) models the effects of two possible schemes aimed at children and young adults respectively. As Torry observes, the former option may be relatively acceptable to the electorate to the extent that "children are universally regarded as a deserving demographic group" (p. 80). Indeed, until recently the existing Child Benefit system conformed closely to the principle of universality, and there is already an appropriate administrative structure in place. In addition, because the payments would simply pay existing recipients of Child Benefit a more generous (£40) and truly universal payment, fiscal costs would be fairly minimal (compared to schemes with comprehensive coverage of the population). However, even such a modest effort would still require a 2% increase in NICs above the upper earnings threshold, and a 2.5% rise in income tax rates across all tax bands. According to Torry (ibid.: 79), such a scheme would reduce child poverty levels by about 10%. The UBI for young adults (aged 16-24) would be paid for almost entirely through the removal of the personal income tax threshold for that age group, as well as a 4% increase in NICs above the upper earnings limit. Torry argues that it would be feasible to extend coverage gradually by continuing to pay recipients the basic income beyond age 19, while those to whom coverage had not yet been extended – for reasons of fairness – would retain their personal allowance. While we accept the principle behind Torry's reasoning, it is unclear how feasible or desirable it would be to maintain a dual tax system, administratively speaking.

In Martinelli (2017a), we have also examined a number of options for introducing a basic income for specific age groups. These include a Young Adult's Income for 18-25 year olds, a Third Age Income for individuals aged between 50 and pension age, and a Citizen's Pension. In each of the Young Adult's Income and Third Age Income, we withdraw the main working age benefits (ESA, IS, and JSA) alongside a UBI of equivalent value to basic payment rates; the schemes imply net costs of £23bn and £37bn respectively. Both schemes imply reductions in household poverty of around 8%, with the Young Adult's Income significantly more effective at alleviating child poverty and – at a lower cost

– 'better value' overall.

Probably the most feasible route for introducing a basic income to a specific group is via a universal Citizen's Pension. The current system has for some time been moving towards universality through incremental changes to the contributory principle, including a reduction in the number of years required to qualify for a full Basic State Pension (BSP) and the introduction of Home Responsibilities Protection (subsequently replaced by National Insurance credits for parents and carers). The recent moves to a more generous, single-tier BSP are intended to reduce the role of means-testing in the pension system, by increasing the value of the full BSP to the minimum income threshold implied by the means-tested Pension Credit. In other words, the UK state pension system is already quite close to a universal flat-rate payment **in practice**, although it technically remains a contributory benefit with complex entitlement rules. Replacing the BSP and Pension Credit with a Citizen's Pension of equivalent value would cost around £24bn, and would have fairly minimal effects on poverty levels, according to our micro-simulation results (Martinelli, 2017a). Despite the underwhelming distributional benefits, it is worth noting that reform would probably bring substantial administrative savings, as complex means- and contributions tests would no longer be required. Another important factor is that pensioners are broadly considered to be more 'deserving' than working-age welfare claimants, as well as comprising a disproportionately powerful electoral constituency (Berry, 2014).

Towards the Adoption of Basic Income Principles

In a similar vein to Torry's (2013) minimal strategy, although diverging from strict concept of basic income, Van Parijs (2004) suggests that as a practical strategic matter, UBI advocates must keep 'one eye in the distance, and one on the floor'. For him, cognate schemes such as EITCs are realistic starting points on which longer term efforts can build. In the UK, where in-work benefits are already *in situ*, a plausible direction of reform might be to reverse cuts to the generosity of in-work benefits that are impoverishing working families and simultaneously deteriorating their financial incentives to work (Resolution Foundation, 2016).

To these we might add attempts to reduce the punitive nature of behavioural conditions, or broaden their scope to include forms of valuable non-labour market activities, perhaps towards the formal introduction of a participation income. One possibility for incremental reform rests in the powers of the devolved parliaments and regional authorities. As we have already noted, there is some appetite for trialling basic income in the Scottish cities of Glasgow and Fyfe. Although Westminster currently sets benefit levels and entitlement rules, nevertheless there may be scope in the future for regional- and local-level experimentation – for example with respect to conditionality and sanctions

regimes imposed on claimants. Ultimately, steps that fall short of basic income *per se* may fail to achieve any significant progress towards many of UBI's goals, and may even be counterproductive to the attainment of some of them (for example, by requiring an additional layer of administration, and thus increasing the costs of bureaucracy). It is also conceivable that some of these efforts would effectively erode the impetus for more significant reforms; for example, it seems evident that the harsher and more dysfunctional elements of conditionality are instrumental in generating support for basic income. So the argument goes, the danger is that in pushing for incremental improvements 'the good' (reigning in the excesses of conditionality) may be the enemy of 'the best' (an unconditional basic income).

We reject this view. Supporters of basic income should be motivated by a desire to improve lives, not by slavish devotion to an abstract idea. If it happens that elements of basic income can be actualised more readily in part than in totality, then we must accept this political reality. As Van Parijs (ibid.: 24) aptly notes, "the fight for basic income is not an all-or-nothing affair. This is no game for purists and fetishists but for tinkerers and opportunists".

6

References and Appendices

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Appendix I: UBI in Three Influential Political Philosophical Perspectives

Libertarianism

As Van Parijs (1992) documents in the introduction to his seminal volume *Arguing for Basic Income: Ethical Foundations for a Radical Reform*, UBI can be strongly justified on the basis of alternative theories of justice. In libertarian accounts, redistributive measures funded through taxation are generally opposed on the grounds that individuals should be free to own and dispose of their (justly acquired) private property as they see fit; the more functional corollary of this ethical claim is that free markets incentivise self-provision and therefore lead to greater productive efficiency. However, a UBI is consistent with libertarian thought on the basis that every individual within a political community has an equal right to commonly-owned natural resources and, furthermore, to compensation for the private ownership of such resources to the extent that privatisation may be understood to have arisen from historical injustice (ibid.; Carter, 2012). An extension to this argument holds that **all** output is the product of "a complex interaction between natural resources, inherited technology, the legal and customary framework and particular capital and labour inputs" (Van Parijs, 1996: 17), some of which (excepting labour and justly-acquired capital) should rightly be seen as social assets. To the extent that this is true, these factors are subject to the same arguments regarding individuals' right to compensation for their private appropriation. However, this is still likely to be a fairly small proportion of output – given that labour and capital contribute the majority of value added – as well as practically impossible to determine.

Egalitarianism

Thus, the libertarian justification for UBI is forceful – particularly in conjunction with arguments that it should be funded directly through resource revenue – but as Van Parijs (1991: 15-16) acknowledges, at most it pertains to "an admittedly strong right to a pathetically small grant". In order to justify a more expansive UBI, we need also to consider arguments which posit a broader concept of freedom – 'real freedom' – than libertarian accounts.

All egalitarian thought begins from the idea that something of normative value – for example resources, welfare, opportunity, or 'real freedom' – should be equalised across the population (Dworkin, 1981a; 1981b). The difficulty for egalitarian advocates of UBI is that although a uniform payment to all satisfies the criteria of equality in a narrow 'procedural' sense – by conferring every individual an identical entitlement to income transfer – it appears to fail to uphold more complex forms of equality that imply that difference should be treated with difference. These may require,

for example, that entitlement to state transfers (and their level) should be varied according to individuals' diverse gross income levels and specific needs. In the case of the former (diverse gross income levels), UBI appears inegalitarian as uniform transfers would not equalise net incomes (and therefore access to resources) as effectively as targeted transfers. In the case of the latter, even if UBI **were** an effective means of redistributing income and therefore promoting greater equality of resources – as is claimed, for example due to improved 'target efficiency' and the removal of poverty and unemployment traps that disproportionately affect the poor, as discussed below – it does not follow that UBI would be an effective means to equalise **welfare** or **opportunity**, since those with more extensive needs (for example arising from disability) would be disadvantaged. Furthermore, egalitarianism is usually concerned with equalising individuals' opportunities to attain a given level of income or welfare in the context of "undeserved bad luck – being born with poor native endowments, bad parents, and disagreeable personalities, suffering from accidents and illness, and so forth" (Anderson, 1999) – but acknowledges that work effort should be recognised and rewarded. It is therefore consistent with the conception of equality which considers that resources and welfare should vary in proportion to 'deserts'; this idea appears to conflict with UBI's unconditional (and non-reciprocal) character.

"Egalitarianism is usually concerned with equalising individuals' opportunities to attain a given level of income or welfare in the context of undeserved bad luck"

Despite these objections, there is still a compelling egalitarian case for UBI, as typified by Guy Standing's (2002) B*eyond the New Paternalism: Basic Security as Equality*. A good point of departure in constructing this argument is Rawls' (1971) influential *A Theory of Justice*. Rawls has persuasively argued that deviations from equality are just if they serve to improve the position of the worst off. Standing adopts a modified version of this criterion, demonstrating that UBI improves the security of – and does not impose paternalistic control on or exercise bureaucratic discretion over – the poorest and 'least free' in society. It should be added that the egalitarian defence of UBI only appears to hold when it is implemented in conjunction with and not as an alternative to a range of targeted benefits. Following Baker (1992), it would also require a system for compensating differentials with respect to work effort and desert; indeed, this would be necessary to sustain the UBI – funded as it would be via productive activity capable of generating a 'social surplus' – as well as for reasons of egalitarian justice.

Communitarianism

The justifications provided above may be characterised as 'liberal individualist', in the sense that they take the liberty, welfare and rights of individuals as their primary concern. For communitarians – who take society as a whole as their preferred unit of analysis – maximising the aggregate of welfare at the individual level may not be best for societal welfare (Bell, 2016). As Bell

(ibid.) acknowledges, the communitarian critique of liberalism was "motivated not so much by philosophical concerns as by certain pressing political concerns, namely, the negative social and psychological effects related to the atomistic tendencies of modern liberal societies". According to Pearce (2015), communitarians are distrustful of UBI precisely because it carries with it the potential to weaken collective and civic institutions and social bonds: it is seen to (further) diminish the concept of reciprocity on which social security has traditionally been based, and – whether warranted or not – it has become connected to conservative agendas of welfare spending cuts, '*laissez-faire*' labour market policies, and the erosion and privatisation of public services.

The implications of this critique are quite profound, and certainly seriously limit the political feasibility of UBI – for although the political philosophical concept of communitarianism may be fairly unfamiliar to the layperson, the ideas it conveys are not. Across the left-right spectrum, we encounter the widespread perception that 'fairness' requires that rights are coupled with responsibilities, perhaps the most important of which is the responsibility of those who are able to work.

Does this mean that communitarians are immutably opposed to UBI? Not necessarily; for a number of UBI proponents, the principles underlying UBI are not at all incompatible with a desire to foster communal life and to promote a more cohesive and harmonious society (e.g. Santens, 2015). For one thing, UBI would reduce people's dependence on wage labour, permitting them to devote more time to civic responsibilities. As Van Parijs (2004) has observed, the individualised nature of UBI should help to reduce isolation traps (which occur due to the imposition of household-level means-tests and conditions) and thus promote family formation. And most basic income advocates oppose the vision of UBI as an alternative to the provision of public services, where these are justified by other distinct rationales.

Appendix II: Table of Key Features and Fiscal and Distributional Effects: Illustrative (Full and Partial) UBI Schemes

Scheme Type/Source	Payment Level (Weekly)	Benefit Changes	Tax Changes	Fiscal and Distributional Effects
Full Scheme 1 Martinelli, 2017a; 2017b	**Moderate:** £73.10 for working-age adults (18-64 for men, 18-62 for women); £155.60 for pensioners; and £67.01 for children 0-17	Withdrawal of BSP, CA, CB, CTC, ESA, IS, JSA, PC, and WTC; UBI taken into account in the calculation of Housing and Council Tax Benefit	4% increase in tax rates across all bands; withdrawal of PITA; harmonisation of NICs at 12%	Revenue neutral Change in child poverty rate (%): +1.0 Change in working age poverty rate (%): +7.2 Change in Gini coefficient (%): +4.0
Full Scheme 2 Martinelli, 2017a; 2017b	**Moderate/high** (with disability supplements)**:** £35.75 for disabled adults; £76.65 for severely disabled adults (on top); £59.45 for disabled children; and £24.07 for severely disabled children (Supplements for severe disability paid on top of disability supplement)	Withdrawal of BSP, CA, CB, CTC, ESA, IS, JSA, PC, and WTC; UBI taken into account in the calculation of Housing and Council Tax Benefit	8% increase in tax rates across all bands; withdrawal of PITA; harmonisation of NICs at 12%	Net saving: £4bn Change in child poverty rate (%): -14.9 Change in working age poverty rate (%): -14.4 Change in Gini coefficient (%): -5.5
Scheme β (Partial) Torry, 2016a	**Low/moderate:** £60 for adults 25-64; £50 for adults 16-24; £30 for pensioners; and £20 for children	All benefits left in payment, and UBI taken into account in the calculation of means-tested benefits	3% increase in tax rates across all bands; withdrawal of PITA; harmonisation of National Insurance Contributions (NICs) at 12%	Net saving of 2.8bn Change in child poverty rate (%): -35.8 Change in working age poverty rate (%): -18.1 Change in Gini coefficient (%): -8.6
Scheme 2 (Partial) Reed and Lansley, 2016	**Moderate:** £71 for adults 25-64; £61 for adults 16-24; £51 for pensioners; and £59 for children	All benefits left in payment except CB, and UBI taken into account in the calculation of means-tested benefits	5% increase in tax rates across all bands; withdrawal of PITA; harmonisation of NICs at 12%	Net cost: £8.2bn Change in child poverty rate (%): -44.5 Change in working age poverty rate (%): -13.7 Change in Gini coefficient (%): -10.3

Appendix III: Table of Average Changes in PTRs and Proportions Facing Improved and Weakened Work Incentives: Total, by Income Quintile and by Household Means-Testing Status: Illustrative Full Schemes

Scheme	Category	Base PTR	Change in PTR	+ve Change	>10%	>25%	No Change	-ve Change	>10%	>25%
Full Scheme 1	Total	0.36	-0.01	0.43	0.35	0.26	0	0.57	0.49	0.36
	Quintile 1 (poorest)	0.44	-0.12	0.68	0.61	0.52	0	0.32	0.28	0.23
	Quintile 2	0.4	-0.05	0.57	0.46	0.36	0	0.43	0.37	0.26
	Quintile 3	0.35	-0.02	0.49	0.4	0.29	0	0.51	0.43	0.28
	Quintile 4	0.28	0.05	0.29	0.22	0.14	0	0.71	0.58	0.41
	Quintile 5 (richest)	0.28	0.08	0.15	0.1	0.06	0	0.85	0.74	0.53
	No means-tested benefits in payment	0.32	0.02	0.37	0.29	0.21	0	0.63	0.53	0.37
	At least one of ESA, IS, JSA, PC, CTB and HB in payment	0.5	-0.17	0.72	0.64	0.58	0	0.28	0.25	0.22
Full Scheme 2	Total	0.36	0.06	0.34	0.28	0.2	0	0.66	0.58	0.48
	Quintile 1 (poorest)	0.44	-0.08	0.61	0.54	0.46	0	0.39	0.34	0.29
	Quintile 2	0.4	0.02	0.46	0.39	0.31	0	0.54	0.45	0.38
	Quintile 3	0.35	0.06	0.38	0.3	0.21	0	0.62	0.54	0.42
	Quintile 4	0.28	0.1	0.22	0.16	0.1	0	0.78	0.7	0.57
	Quintile 5 (richest)	0.28	0.12	0.1	0.07	0.04	0	0.9	0.85	0.7
	No means-tested benefits in payment	0.32	0.07	0.29	0.23	0.17	0	0.71	0.64	0.52
	At least one of ESA, IS, JSA, PC, CTB and HB in payment	0.5	-0.04	0.63	0.54	0.47	0	0.37	0.32	0.27

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